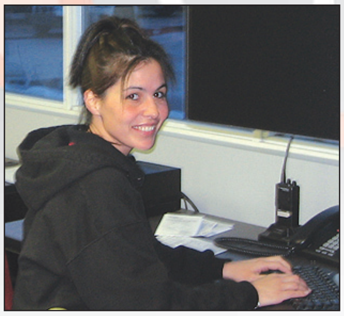
CARGOJET

2009 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 50% of Canada's domestic overnight air cargo capacity. Cargojet's network consolidates cargo received from over 400 customers and carries over 750,000 pounds of cargo each business night across its North American network. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. In 2009, Cargojet operated approximately 12,000 flights of which more than 98% arrived at destination within 15 minutes of scheduled arrival. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.



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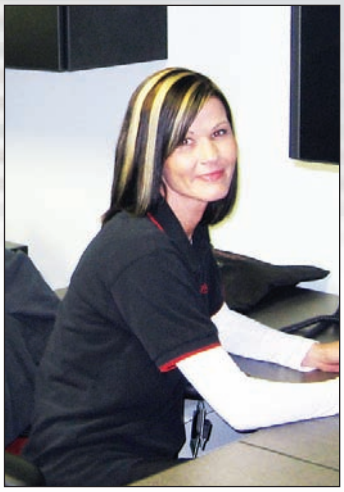
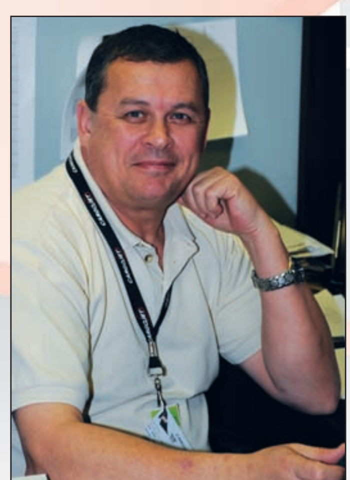
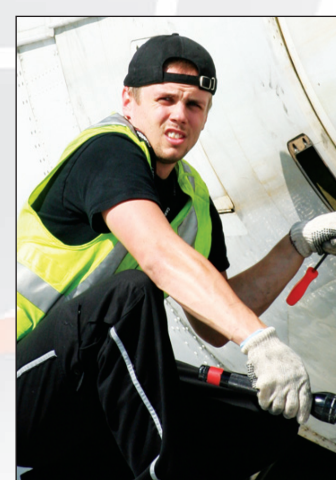


Financial Highlights

Supplementary Financial Information (in thousands of dollars)	Year Ended	Three Month Period Ended				Year Ended
	December 31 2008	March 31 2009	June 30 2009	September 30 2009	December 31 2009	December 31 2009
Revenues	205,675	42,204	39,114	41,372	43,474	166,164
Direct expenses	173,654	32,179	29,809	30,824	32,964	125,776
EBITDA	16,190	6,382	4,927	5,429	6,945	23,683
Distributable cash	10,122	4,610	3,139	(575)	1,093	8,267
Cash distributions	8,782	1,798	710	681	3,910	7,099
Direct expenses/Revenues	84%	76%	76%	75%	76%	76%
EBITDA/Revenues	8%	15%	13%	13%	16%	14%
Cash distributions as a percentage of distributable cash	87%	39%	23%	NM [1]	358%	86%

[1] Cash distributions as a percentage of distributable cash is not meaningful ("NM") for the three month period ended September 30, 2009 due to the fact that there was a distributable cash deficit for this period.





Message To Unitholders

Cargojet delivered solid results in 2009, increasing earnings and improving gross operating margins despite lower economic activity.

We are pleased to report the very successful financial and operating results for the Cargojet Income Fund for 2009. Similar to the rest of the Canadian transportation industry, Cargojet's success is tied very closely to the overall economic activity. However, despite lower overall volumes handled, we were able to significantly improve both our earnings and gross margin, while maintaining our on-time service reliability levels.

Further evidence of the skills and experience level of our dedicated team of Cargojet professionals, who continue to react to fluctuating volumes and business levels by adjusting capacity to meet customer demand. We continually monitor both revenue and operating costs and make necessary adjustments to keep our operating margins at a level acceptable to Management, our Board and our Unitholders. While the global economy continued to experience significant declines in 2009, Cargojet took necessary steps to ensure we did not become a victim of these circumstances and market conditions. We implemented stringent and effective cost control measures to ensure our future viability and profitability while continuing to preserve our core operations. We have always managed the business in a conservative and responsible manner and will continue to do so going forward.

In 2009 Cargojet was honoured with the "Outstanding Ontario Business Achievement Award" in the Large Business category, by the Ontario Chamber of Commerce. Cargojet is also very pleased to be the only Canadian air cargo carrier to receive the Shipper's Choice Award, as "Carrier of the Year" from the trade publication Canadian Transportation & Logistics for the sixth consecutive year. We have also successfully maintained our ISO 9001:2000 Quality accreditation for the ninth consecutive year.

FINANCIAL RESULTS

Despite the economic challenges of 2009, we are very pleased with our financial results for the year. Although total Revenue declined to $166.2 million in 2009 as compared to the previous year, we were able to improve EBITDA by 46.3% to $23.7 million. Gross Margin improved to 24.3% from 15.6%, as a result of prudent and strict attention to detail in all cost areas of the business. Although we saw declines in most traditional sectors of our business, we also saw revenue growth in the ACMI sector with the launch of our weekly freighter service between Canada and Poland, in the latter part of the year.

The Fund also made efforts to reduce its long-term debt, by issuing a Substantial Issuer Bid to purchase up to $15 million of its outstanding Convertible Unsecured Debentures. Through a Normal Course Issuer bid, Cargojet also purchased for cancellation 599,402 Units at an average price of $4.01 per Unit during the year

As a result of the improved financial performance of the Fund during the year, in November the Board of Trustees approved an increase in the monthly cash distributions and a special year-end distribution to all Unitholders.

We are very pleased with our financial results and accomplishments in 2009. They are a reflection of the skill and ability that we have to manage and navigate our business through difficult times. However, we continue to be realistic as we look forward and must continue to manage our business in a challenging and sometimes unpredictable economic environment.

OUTLOOK

Economic uncertainty is still a very real threat as we move forward. There is no consensus among experts on how long the continued depressed economic environment will last. Lower demand and continued pricing pressures will require management to continue to monitor volumes and adjust capacity accordingly. We will manage our way through this difficult period by controlling those areas that we can. Last year we were very demanding about our direct operating expenses. We froze all salaries, implemented a hiring freeze and reduced all discretionary spending. Capital spending budgets were reduced and all of these initiatives will remain in place or further initiatives will be implemented, until we seen signs of improvement in the economy and our customers volumes.

TEAM CARGOJET

Cargojet's ability to provide an uncompromising level of safety, security and on-time reliability to its Customers is a result of the hard work, professionalism and dedication of every member of the Cargojet Team. They are the best in the business and it is their on-going commitment to the details of our day-to-day operations that allow us to succeed and to emerge as a stronger company going forward.

The Trustees of the Cargojet Income Fund have set the Fund's distribution policy to ensure the stability and sustainability of payments to Unitholders. The business is managed on a conservative basis with a payout ratio consistent with the Fund's underlying ability to meet monthly fluctuations resulting from seasonality, unforeseen additional expenses and/or maintenance capital expenditures.

In conclusion and on behalf of the Board of Trustees, I would like to extend our sincere thanks to our Customers for their continued loyalty and support; our investors for their confidence in the Cargojet Income Fund; and our Cargojet Team of professionals for their hard work and dedication throughout the year.

Dr. Ajay K. Virmani
President & Chief Executive Officer

March 2010

Corporate Governance

The Fund and the Board recognize the importance of corporate governance to the effective management of the Fund and to the protection as defined below of its employees and unitholders. The Fund's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Fund are effectively managed so as to enhance unitholder value. The Fund has adopted National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices to ensure it meets its disclosure requirements.

Code of Ethics

To ensure we meet the highest standards of governance, the Trustees have adopted and are guided by the principles outlined in Cargojet's Code of Ethics.

The Code applies to all employees and parties related to Cargojet. It incorporates all of our guiding principles and provides a frame of reference for dealing with complex and sensitive issues. Any non-compliance with the Code is to be reported to Cargojet's Human Resources. The Trustees monitor compliance of the code by obtaining reports from Cargojet's Human Resources Manager as to any matters reported under the Code.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to trustees, directors, officers and employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

Board and Committees

Cargojet is governed by its Trustees, which is elected annually by the unitholders with the assistance of the Board of Directors, (the "board") of a wholly owned subsidiary of the fund. The Board currently has five members, the majority of who are independent and two which are members of management.

The Board has established three committees to assist with the analysis of certain issues and to allow more time for the full Board to discuss and debate matters of business.

Audit Committee

The funds Audit Committee was established to assist the Board by reviewing, with its auditors, the financial reports and other financial information provided to the public, internal controls regarding finance and accounting, and general oversight of the Fund's auditing, accounting and financial reporting.

The committee is made up of three independant Trustees. Its responsibilities include:

- Review annual and quarterly financial statements with management and independent auditors prior to the release or filing of reports
- Review and discuss with management all significant issues regarding corporate risk
- Recommend independent auditors to the Board, ensure independence, and review the performance of the independent auditors
- Review and discuss results and significant findings by the independent auditors and recommend audited statements for inclusion in the Fund's Annual report.

Corporate Governance Committee

The Corporate Governance Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Overseeing the Fund's Code of Ethics and Disclosure Policy
- Implementation of Corporate Governance Policies

Compensation and Nominating Committee

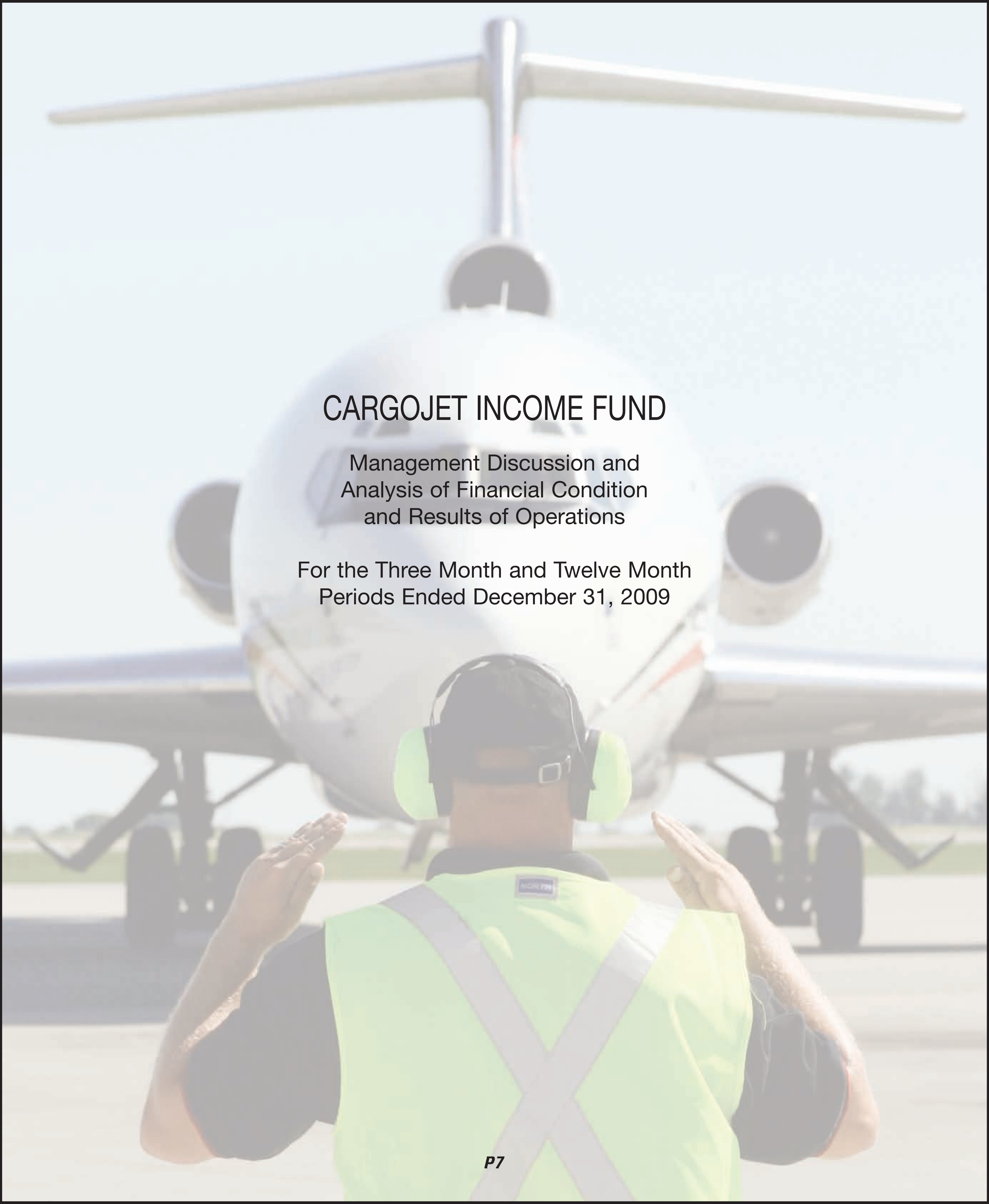
The Compensation and Nominating Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Assess Board membership needs and recommend board nominees
- Ongoing orientation and education of trustees and directors
- Assess the Fund's management succession plan
- Assess the Fund's compensation plan for officers and senior management

Disclosure Policy

To ensure transparency and quality disclosure to our Unitholders, we have a policy that outlines the principles of disclosure of material information as well as identifying designated spokespersons and maintaining confidentiality. The policy also outlines how we manage media relations, rumours, contacts with analysts, investors and the media, quiet periods, posting of information on Cargojet's website, and communication and enforcement. The Disclosure Policy applies to all employees and parties related to Cargojet and is the responsibility of the Board's Corporate Governance committee.

More information on Cargojet corporate governance practices can be found in our Information circular for our annual meeting of unitholders.



CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

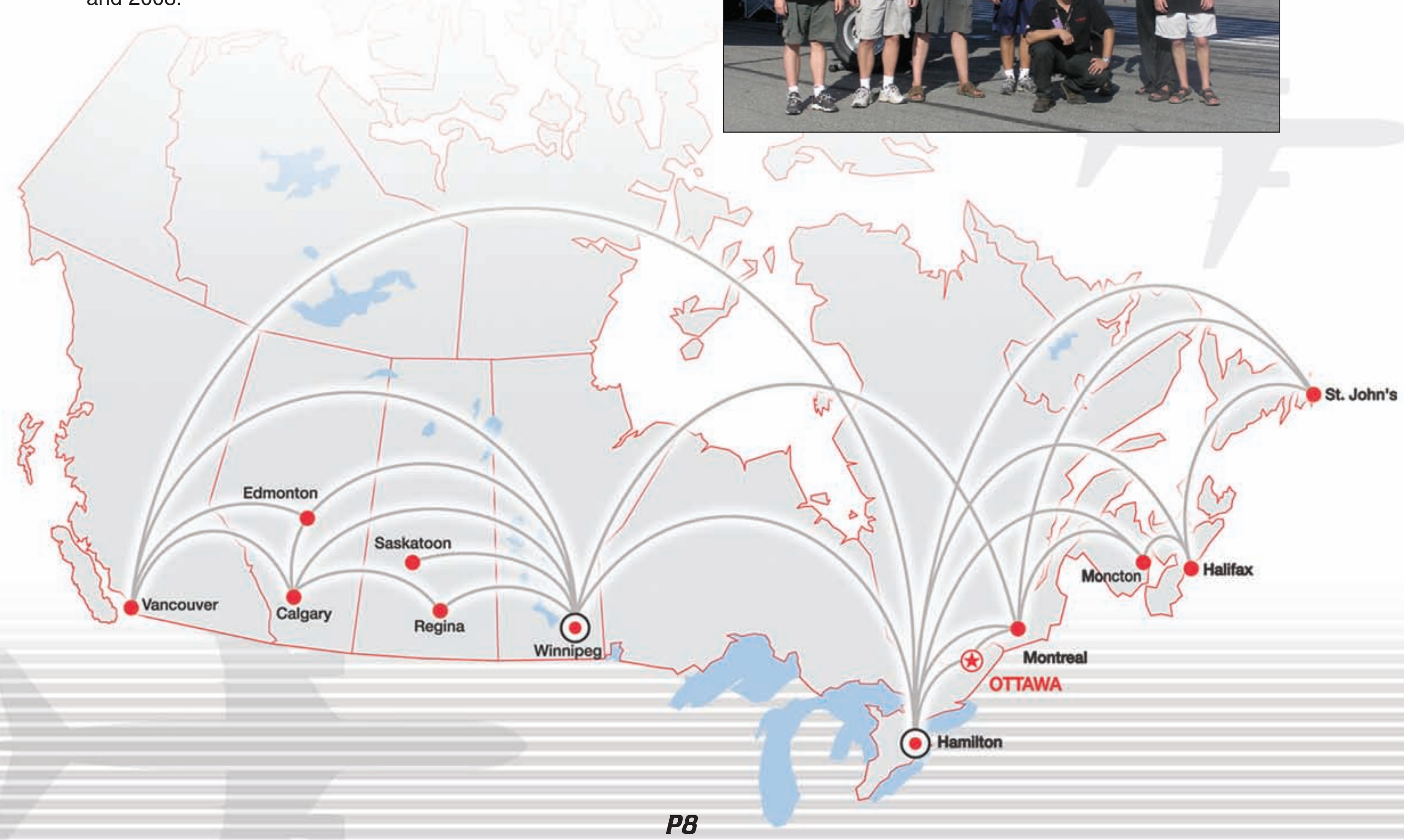
For the Three Month and Twelve Month Periods Ended December 31, 2009

The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three month and twelve month periods ended December 31, 2009. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 2008.

The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005. Reference should be made to the prospectus of the Fund dated June 1, 2005 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

The effective date of the MD&A is February 25, 2010. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we" and "our" mean Cargojet Income Fund. This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Fund as at and for the three month periods ended September 30, 2009 and 2008.

References to "EBITDA" [(A)] are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA [(A)] and Distributable Cash [(B)], are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA [(A)] and Distributable Cash [(B)] may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA [(A)] and Distributable Cash [(B)] should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Distributable Cash [(B)] and EBITDA [(A)] are shown on pages 12 and 15, respectively.



KEY FACTORS AFFECTING THE BUSINESS

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference should be made to the Annual Information Form ("AIF"), filed March 5, 2009 with the regulatory authorities.

FORWARD LOOKING STATEMENTS

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan" "estimate", "expect", "intend" and similar expressions to the extent they relate to the Fund or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in our AIF, filed March 5, 2009 with the regulatory authorities.

CORPORATE OVERVIEW

The Fund is Canada's leading provider of time sensitive overnight air cargo services. Its main air cargo business is comprised of the following:

- Operating a domestic overnight air cargo co-load network between thirteen major Canadian cities
- Providing dedicated aircraft to customers on an Aircraft, Crew, Maintenance & Insurance ("ACMI") basis, operating between points in Canada and the USA
- Operating a scheduled international route for multiple cargo customers between the USA and Bermuda
- Operating a regional air cargo network that services thirty-three smaller cities in Ontario, Quebec and Atlantic Canada

The Fund operates its business across North America transporting over 750,000 pounds of time sensitive air cargo each business night utilizing its fleet of forty all-cargo aircraft. The Fund's domestic overnight air cargo co-load network consolidates cargo received from customers and transports such cargo to the appropriate destination in a timely and safe manner. The Fund continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

The Fund currently operates one leased 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and ten Boeing 727-200 ("B727") series cargo aircraft, three of which are leased and seven owned. The Fund also periodically contracts other airlines on an ACMI or sub-charter basis to temporarily operate aircraft on the Fund's behalf. This provides added capacity to its overall network to meet new business and/or peak period demands. Currently none of Cargojet's aircraft are operated on this basis.

The Fund acquired Prince Edward Air Ltd. ("PEAL") on May 1, 2008 to extend the reach and coverage of its national air cargo network. The operations of PEAL were combined with the existing Cargojet Regional business that was launched in October 2007. In July 2009 the Fund completed the acquisition of the remaining 49% of PEAL for cash consideration of $1.0 million. Immediately following this transaction, PEAL entered into a partnership agreement with SkyLink Express Inc. ("SL") to consolidate their regional cargo businesses. The new partnership began operations under the name Cargojet Regional ("CJR") on August 1, 2009. PEAL acquired 55% of the partnership for $3.9 million by contributing all of its customer contracts to CJR. SL's contribution for the remaining 45% of CJR included all of its customer contracts, the lease of its aircraft to CJR, and an interest bearing promissory note. With twenty-seven turboprop aircraft, CJR operates a regional air cargo network that services thirty-three smaller cities in Ontario, Quebec and Atlantic Canada. CJR's annual revenues are approximately $23 million and it currently employs over 130 people.

RECENT EVENTS

PURCHASE OF CARGOJET CONVERTIBLE DEBENTURES

During the twelve month period ended December 31, 2009, the Fund purchased $3.5 million in face value of its outstanding 7.5% convertible unsecured subordinated debentures (the "Debentures") for $2.9 million at an average price of $811 per Debenture, ($798 per Debenture excluding accrued interest). The purchases were made under an approved normal course issuer bid authorized from March 17, 2009 to March 16, 2010 through the facilities of the Toronto Stock Exchange ("TSX"). Debentures purchased pursuant to the bid were cancelled.

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the "Purchase Price").

Upon the expiry of the Offer on January 15, 2010, an aggregate of $7.5 million principal amount of its Debentures was deposited under the Offer. The Fund took up and accepted for purchase and cancellation all of the deposited Debentures at a Purchase Price of $1,010 per $1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on the Debentures up to January 15, 2010, for an aggregate purchase price of $7.7 million for all Debentures taken up. All Debentures purchased pursuant to the Offer were cancelled.

PURCHASE OF CARGOJET TRUST UNITS

In November 2008 the Fund received approval for a normal course issuer bid to purchase up to 0.60 million trust units ("Units"), representing approximately 10% of the public float outstanding on November 19, 2008, through open market purchases on the TSX. The bid commenced on November 25, 2008 and expired on November 24, 2009. Under this bid, during the period from January 1, 2009 to November 25, 2009, the Fund purchased 0.6 million Units at $2.4 million at an average price of $4.06. All Units purchased pursuant to the bid were cancelled.

In December 2009 the Fund received approval for a normal course issuer bid to purchase up to 0.57 million of its Units, representing approximately 10% of the public float outstanding on November 27, 2009, through open market purchases on the TSX. In December 2009, the Fund purchased 0.34 million Units at a cost of $3.2 million or $9.35 per Unit. All Units purchased pursuant to the bid were cancelled.

For the year ended December 31, 2009 the Fund has purchased a total of 0.92 million Units for $5.5 million at an average price of $6.00. As at December 31, 2009, the Fund has purchased a total of 0.94 million Units for $5.6 million at an average price of $5.94 since the first normal course issuer bid commenced on November 25, 2008. No other purchases of Units have been made as of the date of this MD&A.

FOREIGN EXCHANGE CONTRACTS

In May 2009 the Fund entered into a series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by June 2011. In October 2009, the Fund entered into an additional series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by October 2011. As at December 31, 2009, the remaining forty contracts had a negative fair value of $0.5 million that was recorded as a liability on the balance sheet. These contracts were designated as hedges at December 31, 2009. On January 1, 2010 the Fund discontinued hedge accounting and will recognize the deferred loss of its remaining forty foreign exchange contracts in the same periods in which the hedged anticipated transactions will affect net income.

In January 2009 the Fund realized gains of approximately $2.8 million from the settlement and sale of all of the Fund's U.S. dollar forward purchase contracts held as at December 31, 2008. These gains were recognized throughout 2009 in net income in the same periods that the anticipated transactions to which the hedges related would have affected net income.

RECENT EVENTS (CONTINUED)

NEW AIRCRAFT CHARTER AGREEMENT

Cargojet entered into a strategic aircraft charter agreement with LOT Polish Airlines effective November 7, 2009. Cargojet operates a weekly trans-Atlantic flight between Hamilton International Airport and Poland every Saturday. The schedules have been designed to meet the increasing needs and requirements of air cargo shippers in North America and Eastern Europe and provide the only direct freighter service between North America and Poland. Annualized revenues for this flight are estimated to be $2.7 million and the initial contract term is to March 21, 2010. Cargojet is currently negotiating a new contract with the customer and continues to operate the flight.

REVENUES

The Fund's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Fund's network and a corresponding guaranteed daily revenue amount is paid to the Fund for this space and weight allocation. Remaining capacity is sold on an ad hoc basis to contract and non-contract customers. The Fund also generates revenue from a variety of other air cargo services:

- The Fund provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This revenue helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.

- To further enhance its revenues, the Fund offers a specialty charter service, typically, in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe.

- The Fund operates an international route operating between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

- The Fund provides and operates dedicated aircraft on an ACMI basis. On these contracts, the customer is responsible for all commercial activities and the Fund is paid a fixed amount to operate the routes.

- Through CJR, the Fund generates revenue from its regional air cargo business that services thirty-three smaller cities in Ontario, Quebec and Atlantic Canada.

EXPENSES

Direct expenses consist of fixed and variable expenses including aircraft and ground support, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter and ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment and building leases.

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Fund's business, that include functions such as load scheduling, flight operations coordination, client relations, administration, accounting and information systems.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2009

Reconciliation of Cash from Operating Activities to Distributable Cash (B) (in thousands)

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Cash inflow from operations before changes in non-cash working capital items (1)	**5,694**	9,446	**16,522**	16,164
Changes in non-cash working capital items (1)				
Accounts receivable	**884**	4,916	**(147)**	882
Materials and supplies	**(110)**	134	**55**	118
Prepaid expenses and deposits	**(1,870)**	(500)	**(10)**	(4,221)
Deferred charges	**-**	51	**-**	-
Due from related party	**-**	(15)	**-**	-
Accounts payable and accrued charges	**(900)**	(157)	**(4,445)**	1,982
Income taxes payable / recoverable	**219**	(896)	**3,215**	(3,058)
	3,917	12,979	**15,220**	11,867
Less:				
Maintenance capital expenditures (2)	**1,067**	94	**3,132**	3,485
Income taxes paid (recovered)	**1,550**	882	**-**	882
Transfer of gains on derivatives from other comprehensive income	**(709)**	-	**(2,600)**	-
Heavy maintenance deposits	**-**	1,000	**710**	1,331
Repayment of long-term debt obligation under capital lease	**46**	61	**192**	243
Minority interest in cash inflow from operations before changes in working capital items of PEAL and CJR	**(522)**	(126)	**(1,481)**	48
Total changes in non-cash working capital items	**(1,778)**	3,533	**(1,332)**	(4,297)
Purchase of Cargojet Income Fund debentures	**-**	-	**2,808**	-
Purchase of Cargojet Income Fund units	**3,170**	53	**5,524**	53
Distributable cash (B)	**1,093**	7,482	**8,267**	10,122
Average number of trust units outstanding - basic (in thousands of units)	**6,063**	6,693	**6,367**	6,697
Average number of trust units outstanding - diluted (in thousands of units)	**8,296**	11,154	**8,600**	8,930
Distributable cash per unit - diluted (3)	**$ 0 .13**	$ 0 .73	**$ 0.96**	$ 1.13
Cash distributions	**3,910**	1,807	**7,099**	8,782
Cash distributions as a percentage of distributable cash	**358%**	24%	**86%**	87%

(1) Please refer to Statement of Cash Flows for the Fund.

(2) Maintenance capital expenditures for the twelve month period ended December 31, 2009 exclude the $0.04 million for equipment that was financed under a capital lease. Maintenance capital expenditures for the twelve month period ended December 31, 2008 exclude the $0.7 million for equipment that was financed under a capital lease and maintenance capital expenditures attributable to the minority interest in PEAL.

(3) For the purpose of calculating distributable cash per unit – diluted for the three month period ended December 31, 2009 and for the twelve month periods ended December 31, 2009 and December 31, 2008, the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating distributable cash per unit – diluted for the three month period ended December 31, 2008, the weighted average number of Units, the weighted average number of Exchangeable LP units, and the effect of the conversion of the Fund's Debentures have been combined. The effect of the conversion of the Fund's Debentures are not factored into the calculation of distributable cash per unit – diluted when the effect would be anti-dilutive.

Please refer to End Note (B) included at the end of this MD & A.

CARGOJET INCOME FUND
Management Discussion and Analysis of Financial Condition and Results of Operations
For the Three Month and Twelve Month Periods Ended December 31, 2009

Results of Operations and Supplementary Financial Information (in thousands)

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(audited)**	(audited)
	$	$	**$**	$
Revenue	**43,474**	53,659	**166,164**	205,675
Direct expenses	**32,964**	42,230	**125,776**	173,654
	10,510	11,429	**40,388**	32,021
Selling, general and administrative expenses				
Sales and marketing	**181**	244	**595**	955
General and administrative	**5,153**	3,932	**21,016**	18,352
Gain on debenture redemption	**-**	-	**(401)**	-
Interest	**1,196**	1,021	**4,062**	3,174
Amortization of capital assets	**235**	163	**755**	607
Amortization of intangible assets	**245**	3,194	**5,886**	11,538
	7,010	8,554	**31,913**	34,626
Earnings (loss) before income taxes and non-controlling interest	**3,500**	2,875	**8,475**	(2,605)
Provision for (recovery of) income taxes				
Current	**(65)**	(915)	**1,436**	(894)
Future	**(1,488)**	1,114	**(2,295)**	(660)
Earnings (loss) before non-controlling interests	**5,053**	2,676	**9,334**	(1,051)
Non-controlling interests	**1,281**	278	**1,169**	(763)
Net earnings (loss)	**3,772**	2,398	**8,165**	(288)
Earnings (loss) per trust unit - basic	**$ 0.62**	$ 0.36	**$ 1.28**	$ (0.04)
Earnings (loss) per trust unit - diluted [1]	**$ 0.57**	$ 0.18	**$ 1.28**	$ (0.04)
Average number of trust units - basic (in thousands of units)	**6,063**	6,693	**6,367**	6,697
Average number of trust units - diluted (in thousands of units)	**10,304**	8,926	**8,600**	8,930
Total assets	**134,813**	136,859	**134,813**	136,859
Total long-term liabilities	**50,837**	45,879	**50,837**	45,879

[1] For the purpose of calculating earnings (loss) per trust unit – diluted for the three month period ended December 31, 2009, the weighted average number of Units, the weighted average number of Exchangeable LP units and the effect of the conversion of the Fund's convertible debentures have been combined. For the purpose of calculating earnings (loss) per trust unit – diluted for the three month period ended December 31, 2008 and for the twelve month periods ended December 31, 2009 and December 31, 2008 the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. The effect of the conversion of the Debentures has not been factored into the calculation of earnings (loss) per unit – diluted when the effect of the conversion of the Debentures would be anti-dilutive.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2009

Selected Financial Information

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31 2009	September 30 2009	June 30 2009	March 31 2009	December 31 2008	September 30 2008	June 30 2008	March 31 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	**$ 43,474**	$ 41,372	$ 39,114	$ 42,204	$ 53,659	$ 53,137	$ 52,080	$ 46,799
Net income (loss) (in thousands)	**$ 3,772**	$ 964	$ 2,210	$ 1,219	$ 2,398	$ (1,191)	$ (1,512)	$ 17
Earnings (loss) per trust unit - basic	**$ 0.62**	$ 0.16	$ 0.34	$ 0.18	$ 0.36	$ (0.18)	$ (0.23)	$ 0.00
Earnings (loss) perf trust unit - diluted	**$ 0.57**	$ 0.16	$ 0.32	$ 0.18	$ 0.18	$ (0.18)	$ (0.23)	$ 0.00
Average number of trust units - basic (in thousands of units)	**6,063**	6,202	6,547	6,665	6,693	6,699	6,699	6,699
Average number of trust units - diluted [(2)] (in thousands of units)	**10,304**	8,435	11,005	8,898	8,926	8,932	8,932	8,932

[(1)] For the purpose of calculating earnings (loss) per trust unit – diluted for the three month periods ended December 31, 2009 and June 30, 2009, the weighted average number of Units, the weighted average number of Exchangeable LP units and the effect of the conversion of the Fund's convertible debentures has been combined. The Fund's convertible debentures are not factored into the calculation of earnings per trust unit – diluted when the effect of the conversion of the Debentures would be anti-dilutive.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2009

Reconciliation of EBITDA[A] to Distributable Cash[B] (in thousands)

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA[A]:				
Net earnings	**3,772**	2,398	**8,165**	(288)
Add:				
Interest	**1,196**	1,021	**4,062**	3,174
Non-controlling interests	**1,281**	278	**1,169**	(763)
Provision for (recovery of) current income taxes	**(65)**	(915)	**1,436**	(894)
Provision for (recovery of) future income taxes	**(1,488)**	1,114	**(2,295)**	(660)
Loss on disposal of capital assets	**67**	-	**70**	960
Gain on disposal of intangible assets	**-**	-	**(160)**	(1,149)
Gain on purchase of Cargojet Income Fund debentures	**-**	-	**(401)**	-
Amortization of capital assets	**1,748**	1,856	**6,293**	5,157
Amortization of intangible assets	**244**	3,194	**5,886**	11,538
Aircraft heavy maintenance amortization	**495**	494	**2,090**	2,813
Aircraft heavy maintenance expenditures	**(323)**	(74)	**(2,751)**	(2,098)
Heavy maintenance deposits[1]	**-**	(1,000)	**(710)**	(1,331)
Minority interest	**18**	(83)	**829**	(269)
EBITDA[A]	**6,945**	8,283	**23,683**	16,190
Reconciliation of EBITDA[A] to Distributable Cash[B]:				
EBITDA[A]	**6,945**	8,283	**23,683**	16,190
Less:				
Maintenance capital expenditures[1]	**1,067**	94	**3,132**	3,485
Interest[3]	**1,083**	626	**3,323**	2,299
Provision (recovery) for current income taxes	**486**	(33)	**437**	(12)
Repayment of long-term debt obligation under capital lease	**46**	61	**192**	243
Purchase of Cargojet Income Fund debentures	**-**	-	**2,808**	-
Purchase of Cargojet Income Fund units	**3,170**	53	**5,524**	53
Distributable cash[B]	**1,093**	7,482	**8,267**	10,122

(1) Maintenance capital expenditures for the twelve month period ended December 31, 2009 exclude the $0.6 million for equipment that was financed under a capital lease. Maintenance capital expenditures for the twelve month period ended December 31, 2008 exclude the $0.7 million for equipment that was financed under a capital lease and maintenance capital expenditures attributable to the minority interest in PEAL.

(2) Heavy maintenance deposits are paid to the aircraft lessors on a monthly basis. Cargojet accrues a refund of these payments when it incurs actual heavy maintenance expenditures.

(3) For the purpose of calculating Distributable Cash[B] for the three and twelve month periods ended December 31, 2009, interest excludes the accretion interest expense due to the Fund's convertible debentures. For the purpose of calculating Distributable Cash[B] for the twelve month period ended December 31, 2009, interest excludes the portion of interest expense attributable to the minority interest in PEAL. For the purpose of calculating Distributable Cash[B] for the three and twelve month periods ended December 31, 2008, interest excludes the unrealized loss (gain) on non-hedge derivatives of $0.07 million.

(A) Please refer to End Note (A) included at the end of this MD&A.
(B) Please refer to End Note (B) included at the end of this MD&A.

HIGHLIGHTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2009 AND 2008

- Total revenue for the three month period ended December 31, 2009 was $43.5 million as compared to $53.7 million for the same period in 2008, representing a decrease of $10.2 million or 19.0%.

- Average core overnight daily cargo revenue excluding fuel surcharges, other cost pass-through revenues and revenues from the regional business operated by PEAL for the three month period ended December 31, 2009 was $0.62 million per operating day as compared to $0.78 million per operating day for same period in 2008, representing a decrease of 20.5%.

- EBITDA for the three month period ended December 31, 2009 was $6.9 million as compared to $8.3 million for the same period in 2008, a decrease of $1.4 million or 16.9%.

- Distributable Cash was $1.1 million for the three month period ended December 31, 2009 as compared to $7.5 million for the same period in 2008, a decrease of $6.4 million or 85.3%.

REVIEW OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2009 AND 2008

REVENUE

Total revenue for the three month period ended December 31, 2009 was $43.5 million as compared to $53.7 million for the same period in 2008, representing a decrease of $10.2 million or 19.0%. The decrease in revenues was due primarily to lower fuel surcharges, the loss of an ACMI contract, the cancellation of a route to Western Canada, and a decline in other core overnight revenue.

Revenue related to the core overnight and ACMI cargo businesses excluding regional revenues, fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2009 was $31.2 million compared to $37.2 million for the same period in 2008, a decrease of $6.0 million or 16.1%. The decrease was due primarily to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008, and a decline in other core revenues. Revenues from these two flights were approximately $3.3 million in the fourth quarter of 2008 and nil for the same period in 2009. Cargojet continues to provide services to these same customers on other existing ACMI and overnight contracts. All other core revenues were lower by $2.7 million due primarily to lower overall customer volumes, lower customer yields due to competitive pricing pressures, the negative effect of foreign exchange rate variances on revenues billed in U.S. currency, and a decline in charter revenues offset by the new LOT Polish charter business.

Fuel surcharges and other cost pass-through revenues were $5.7 million for the three month period ended December 31, 2009 as compared to $9.7 million for the same period in 2008, a decrease of $4.0 million or 41.2%. The decrease was due primarily to lower fuel prices that resulted in a reduction of fuel surcharges billed to customers. Other pass-through costs such as navigation and landing fees were lower due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Total regional revenues were $6.2 million for the three month period ended December 31, 2009 as compared to $6.2 million for the same period in 2008. Lower fuel surcharges and lower customer demand were offset by an increase in revenues due to the formation of CJR as of August 1, 2009.

Revenues from the Fund's FBO fueling business were $0.3 million for the three month period ended December 31, 2009 as compared to $0.3 million for the same period in 2008.

DIRECT EXPENSES

Total direct expenses were $33.0 million for the three month period ended December 31, 2009 as compared to $42.3 million for the same period in 2008, representing a decrease of $9.3 million or 22.0%. As a percentage of revenue, direct expenses decreased from 78.8% in 2008 to 75.8% for the same period in 2009. The overall decline in direct expenses was due primarily to lower fuel prices, fewer block hours flown and foreign exchange hedge gains.

Fuel costs were $9.0 million for the three month period ended December 31, 2009 as compared to $13.3 million for the same period in 2008. The $4.3 million or 32.3% decrease in fuel costs was due to lower fuel prices and a decrease in block hours. The cost savings realized by the Fund due to lower fuel prices were credited to customers as a decrease in their fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $4.3 million for the three month period ended December 31, 2009 as compared to $5.2 million for the same period in 2008. The $0.9 million or 17.3% decrease in costs was due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Maintenance costs were $2.2 million for the three month period ended December 31, 2009 as compared to $3.3 million for the same period in 2008, a decrease of $1.1 million or 33.3%. The decrease in maintenance costs was due primarily to the overall improvement in fleet performance attributable to the condition of the B767 and B757 aircraft, and a reduction in the number of B727 aircraft in operation compared to the same period in 2008.

Heavy maintenance amortization costs were $0.4 million for the three month period ended December 31, 2009 as compared to $0.5 million for the same period in 2008, a decrease of $0.1 million or 20.0%. The variance was due to the timing of service required by each aircraft in Cargojet's fleet. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Aircraft lease costs including non-refundable engine reserves, airframe reserves and sub-charter lease costs were $3.4 million for the three month period ended December 31, 2009 as compared to $4.9 million for the same period in 2008. The decrease of $1.5 million or 30.6% was due to the reduction in leased B727 aircraft related to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008. Aircraft lease costs were also lower due to the positive effect of foreign exchange variances on aircraft lease costs that are denominated in U.S. currency.

Total crew costs including salaries, training and positioning were $2.2 million for the three month period ended December 31, 2009 as compared to $3.0 million for the same period in 2008, a decrease of $0.8 million or 26.7%. The decrease in costs was due to the reduction in crews due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Total direct costs of the regional business including the operations of PEAL and CJR for the three month period ending September 30, 2009 were $6.2 million as compared to $6.2 million in the same period in 2008. Higher maintenance costs related to a general upgrade of the condition of PEAL's aircraft and the increase in operating costs due to the formation of CJR were offset by cost savings due to lower fuel prices. An additional 7 aircraft and approximately 20 employees were added to PEAL when CJR was formed.

Total direct costs of the FBO business were $0.3 million for the three month period ended December 31, 2009 as compared to $0.4 million for the same period in 2008. FBO costs were lower due to the decrease in fuel prices and lower customer volume.

Total foreign exchange gains recognized as credits to direct expenses in the fourth quarter of 2009 were $0.7 million as compared to $0.5 million in the same period in 2008. In January 2009 the Fund ended its foreign exchange hedging program and realized a gain of $2.6 million from the sale of all of the Fund's remaining U.S. dollar forward purchase contracts. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affect net income.

Depreciation recorded in direct costs for the three month period ended December 31, 2009 was $1.5 million as compared to $1.4 million for the same period in 2008. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in Q2 2009.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $4.2 million for the three month period ended December 31, 2009 as compared to $4.6 million for the same period in 2008. The decrease of $0.4 million or 8.7% was due primarily to lower linehaul costs associated with lower core overnight customer volumes on specific routes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses were $5.3 million for the three month period ended December 31, 2009 compared to $4.2 million for the same period in 2008, an increase of $1.1 million or 26.2%. The increase in SG&A was due to management incentive plans and other employee bonuses, higher SG&A costs related to CJR, non-hedge foreign exchange gains experienced in 2008 as compared to losses experienced in 2009, and the capitalization of $0.7 million of transaction costs associated with the formation and start-up of CJR. The CJR transaction costs had been expensed in the previous quarter ended September 30, 2009.

EBITDA

EBITDA for the three month period ended December 31, 2009 was $6.9 million or 15.9% of revenue, compared to $8.3 million or 15.5% of revenue for the same period in 2008. The decrease in EBITDA of $1.4 million or 16.9% was due primarily to the following:

- The decline in core overnight revenues of $6.0 million largely offset by lower operating costs achieved through a reduction in fleet capacity and headcount.

- The $1.1 million increase in SG&A costs.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets of the Fund are due to amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL. Amortization of intangible assets for the three month period ended December 31, 2009 was $0.2 million as compared to $3.2 million for the same period in 2008, a decrease of $3.0 million or 93.8%. The decrease in amortization is due to the full amortization of the intangible assets that were recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets were fully depreciated by the end of the second quarter of 2009. The Fund continues to amortize the net book value of intangible assets related to the acquisition of PEAL and the subsequent acquisition of CJR.

INTEREST

Interest expense was $1.2 million for the three month period ended December 31, 2009, compared to interest expense of $1.0 million for the three month period ended December 31, 2008. The increase in interest expense was due primarily to additional draws on the Fund's bank credit facility during the quarter and accrued interest adjustments arising from the purchase of the Fund's Debentures. This increase was offset partially by the decrease in interest on Debentures due to the Fund's purchase of Debentures.

CURRENT INCOME TAXES

Current income taxes for the three month period ended December 31, 2009 was $0.1 million as compared to a recovery of $0.9 million for the same period in 2008. Provisions for income taxes are due to certain subsidiaries of the Fund that are taxable.

NON-CONTROLLING INTERESTS

Net non-controlling interests were a charge to earnings of $1.3 million for the three month period ended December 31, 2009, as compared to a charge to earnings of $0.3 million for the three month period ended December 31, 2008. Non-controlling interests represent the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders, the non-controlling shareholders of PEAL prior to Cargojet's acquisition of the remaining 49% of its shares, and the non-controlling partner of CJR.

DISTRIBUTABLE CASH

Distributable cash was $1.1 million for the three month period ended December 31, 2009, compared to $7.5 million for the three month period ended December 31, 2008. The decrease in distributable cash of $6.4 million was due primarily to the Fund's purchase of $3.2 million of its Units, the provision for current taxes payable net of income tax refunds received, increased expenditures on maintenance capital of $1.0 million, the increase in interest expense of $0.2 million, and the decrease in EBITDA of $1.4 million.

DISTRIBUTIONS

Total distributions declared for the three month period ended December 31, 2009 were $3.9 million resulting in a payout ratio of 358%. In comparison, total distributions declared for the three month period ended December 31, 2008 were $1.8 million resulting in a payout ratio of 24%. The increase in distributions was due to the one-time distribution declared for all unitholders of record as at November 30, 2009 that resulted in an additional payment of $3.0 million, partially offset by the decrease in the monthly distribution rate and fewer outstanding Units.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2009 was $3.8 million as compared to $13.0 million for the same period in 2008. The $9.2 million decrease in cashflow for the fourth quarter of 2009 as compared to the same period in 2008 was due primarily to the collection of large receivable amounts in 2008, a decrease in EBITDA, and the variance in the timing of customer receipts and vendor payments at quarter-end.

Net cash received from financing activities during the three month period ended December 31, 2009 of $2.4 million was due primarily to the increase in long-term debt through the Fund's credit facility partially offset by distributions paid to unitholders of $3.8 million, and the purchase of Cargojet Income Fund Units of $3.2 million. Net cash used in financing activities during the three month period ended December 31, 2008 was $0.6 million due to distributions paid to unitholders of $1.8 million partially offset by the increase in long-term debt through the Fund's credit facility.

Cash used in investing activities during the three month period ended December 31, 2009 was $2.5 million comprised of net capital asset expenditures of $1.8 million and the capitalization of $0.7 million of transaction costs related to the acquisition of CJR. Cash used in investing activities during the three month period ended December 31, 2008 was $12.6 million due to the purchase of capital assets.

The Fund maintains a long-term credit facility that is to a maximum of $30.0 million. As at December 31, 2009 the Fund had drawn $11.1 million of its long-term credit facility. The credit facility will mature in July 2011. Through its subsidiary PEAL, the Fund also maintains fixed loans with another Canadian chartered bank. PEAL's fixed loans bear interest at rates ranging from 8.1% to 8.2%. In June 2009 PEAL cancelled its credit facility with another Canadian chartered bank that was to a maximum of $1.5 million and payable on demand.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

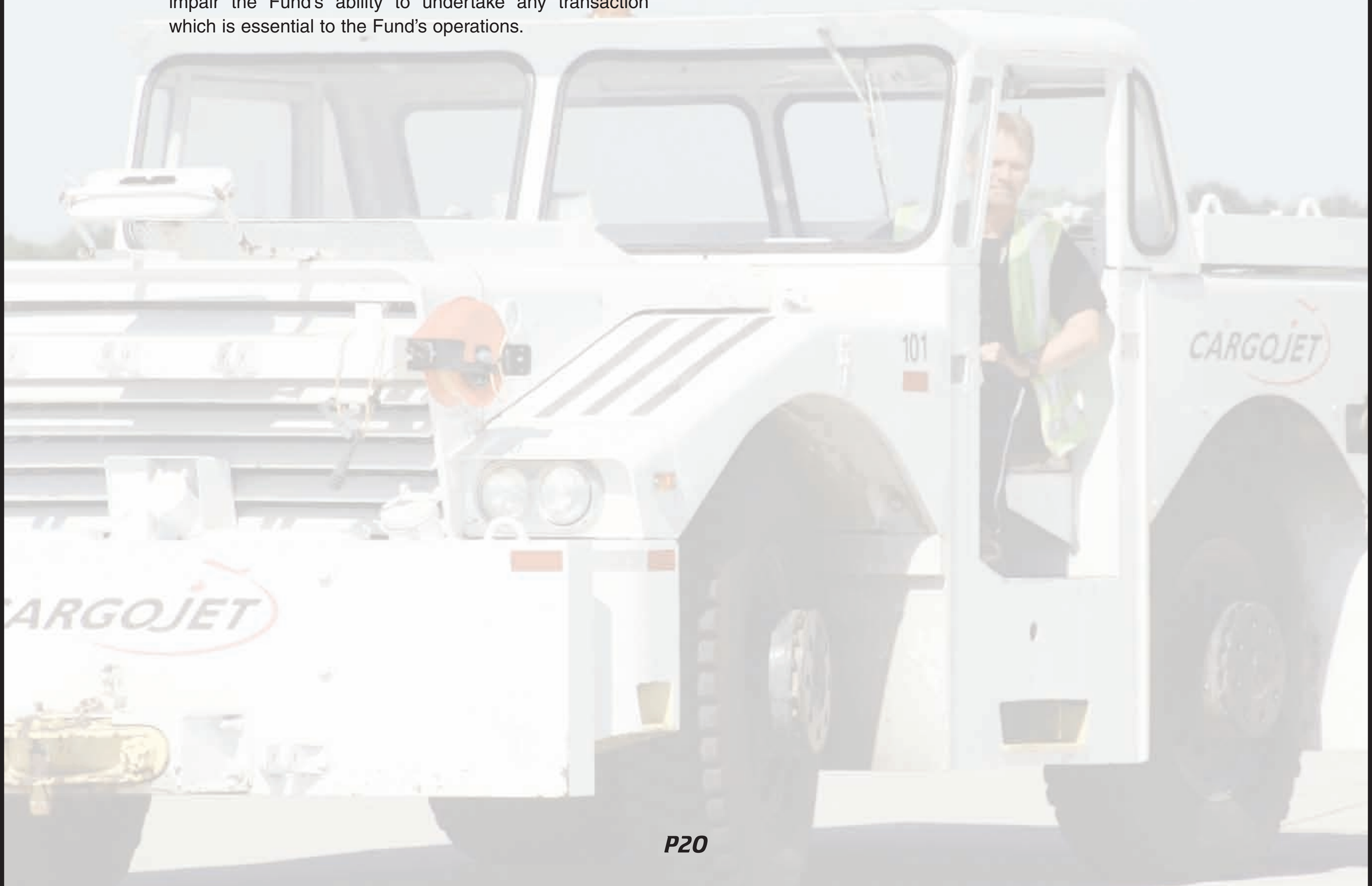
In July 2009, the Fund re-negotiated terms and conditions of PEAL's fixed loans that totalled $5.6 million as at December 31, 2009. The amortization periods of the loans have been extended by 5 years and they will all have matured by January 2022. The loans are secured by the aircraft of PEAL and guaranteed by Cargojet Airways Ltd. for 10% of the outstanding amounts. Cargojet Airways Ltd. is a wholly owned subsidiary of the Fund and the sole shareholder of PEAL. The guarantees provided by Cargojet Airways Ltd. replace the guarantees provided by the previous minority shareholder of PEAL.

Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

CAPITAL EXPENDITURES

Net capital asset additions were $1.8 million for the three month period ended December 31, 2009 as compared to $12.5 million for the same period in 2008. Net capital additions for the three month period ended December 31, 2009 were comprised of $1.1 million of maintenance capital expenditures and $0.7 million of growth capital expenditures related to the new hangar.

Capital asset additions for the three month period ended December 31, 2008 of $12.5 million were comprised of growth capital expenditures of $12.2 million, maintenance capital expenditures of $0.2 million, and additions to leased assets of $0.1 million. Growth capital expenditures were comprised of $6.5 million for the new hangar, $1.0 million for the purchase of a warehouse and office facility at the Hamilton International Airport, and $4.5 million for the purchase of two B727 aircraft that had previously been leased, and $0.5 million of other assets related to the new B767 and B757 aircraft.



HIGHLIGHTS FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2009 AND 2008

- Total revenue for the twelve month period ended December 31, 2009 was $166.2 million as compared to $205.7 million for the same period in 2008, representing a decrease of $39.5 million or 19.2%.

- Average core overnight daily cargo revenue excluding fuel surcharges, other cost pass-through revenues and revenues from CJR for the twelve month period ended December 31, 2009 was $0.62 million per operating day as compared to $0.78 million per operating day for same period in 2008, representing a decrease of 20.5%.

- EBITDA for the twelve month period ended December 31, 2009 was $23.7 million as compared to $16.2 million for the same period in 2008, an increase of $7.5 million or 46.3%.

- Distributable Cash was $8.3 million for the twelve month period ended December 31, 2009 as compared to $10.1 million for the same period in 2008, a decrease of $1.8 million or 17.8%.

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2009 AND 2008

REVENUE

Total revenue for the twelve month period ended December 31, 2009 was $166.2 million as compared to $205.7 million for the same period in 2008, representing a decrease of $39.5 million or 19.2%. The decrease in revenues was due primarily to lower fuel surcharges, the loss of an ACMI contract, the discontinuation of a route to Western Canada and the effect of higher regional revenues due to the acquisition of PEAL in May 2008.

Revenue related to the core overnight and ACMI cargo businesses excluding CJR revenues, fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2009 was $123.1 million compared to $139.9 million for the same period in 2008, a decrease of $16.8 million or 12.0%. This decrease in core overnight revenues was due primarily to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008, offset by an increase in all other core revenues. The decline in revenues attributable to these two flights was approximately $16.7 million. Cargojet continues to provide service to these same customers on other existing contracts.Decreases in other charter revenues were partially offset by the new LOT Polish charter business. All other core revenues were $1.0 million higher for the year ended 2009 as compared to the same period in 2008, an increase of 0.9%.

Fuel surcharges and other cost pass-through revenues were $20.5 million for the twelve month period ended December 31, 2009 as compared to $44.0 million for the same period in 2008, a decrease of $23.5 million or 53.4%. Most of the decrease was due to lower fuel prices that resulted in a reduction of fuel surcharges billed to customers. Other pass-through costs such as navigation and landing fees were lower due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Total regional revenues were $21.5 million for the twelve month period ended December 31, 2009 as compared to $19.9 million for the same period in 2008, an increase of $1.6 million or 8.0%. Regional revenues were higher due to the acquisition of PEAL in May 2008 and the formation of CJR at the end of July 2009. The increase was partially offset by the decline in fuel surcharge revenues due to lower fuel prices.

Revenues from the Fund's FBO fueling business were $1.0 million for the twelve month period ended December 31, 2009 as compared to $1.6 million for the same period in 2008, a decrease of $0.6 million or 37.5%. The decline in revenues was due primarily to the decrease in fuel prices and lower sales volumes.

DIRECT EXPENSES

Total direct expenses were $125.8 million for the twelve month period ended December 31, 2009 as compared to $173.7 million for the same period in 2008, representing a decrease of $47.9 million or 27.6%. As a percentage of revenue, direct expenses decreased from 84.4% in 2008 to 75.7% for the same period in 2009. The overall decline in direct expenses was due primarily to lower fuel prices, fewer block hours flown, foreign exchange gains, and the absence of one-time costs incurred in the first half of 2008.

Fuel costs were $31.7 million for the twelve month period ended December 31, 2009 as compared to $66.4 million for the same period in 2008. The $34.7 million or 52.3% decrease in fuel costs was due to lower fuel prices and a decrease in block hours. The cost savings realized by the Fund due to lower fuel prices were credited to customers as a decrease in their fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $16.9 million for the twelve month period ended December 31, 2009 as compared to $19.7 million for the same period in 2008. The $2.8 million or 14.2% decrease in costs was due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Maintenance costs were $8.7 million for the twelve month period ended December 31, 2009 as compared to $10.8 million for the same period in 2008, a decrease of $2.1 million or 19.4%. $1.6 million of the decrease in maintenance costs was due primarily to the overall improvement in fleet performance attributable to the condition of the B767 and B757 aircraft, and a reduction in the number of B727 aircraft in operation compared to the same period in 2008. $0.5 million of the decrease in year over year maintenance costs was due to one-time costs incurred in 2008 due to unexpected aircraft repair expenditures.

Heavy maintenance amortization costs were $2.1 million for the twelve month period ended December 31, 2009 as compared to $2.8 million for the same period in 2008, a decrease of $0.7 million or 25.0%. The variance was due to the timing of service required by each aircraft in Cargojet's fleet. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Aircraft lease costs including non-refundable engine reserves, airframe reserves and sub-charter lease costs were $16.3 million for the twelve month period ended December 31, 2009 as compared to $18.2 million for the same period in 2008. The decrease of $1.9 million or 10.4% was due to a decrease in sub-charter costs of $4.0 million associated with the delay in the introduction of new aircraft in 2008, offset by the higher lease and engine reserve costs for the new B767 and B757 aircraft.

Total crew costs including salaries, training and positioning were $8.5 million for the twelve month period ended December 31, 2009 as compared to $13.9 million for the same period in 2008, a decrease of $5.4 million or 38.8%. The decrease in costs was due to the one-time startup and transition costs associated with the introduction of new aircraft in 2008 and the decrease in crews due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Total direct costs of the regional business including the operations of PEAL for the twelve month period ending December 31, 2009 were $22.1 million as compared to $19.4 million in the same period in 2008, an increase of $2.7 million or 13.9%. The increase was due primarily to the acquisition of PEAL in May 2008 and the formation of CJR in July 2009. The regional business also experienced higher year over year maintenance costs related to a general upgrade of the condition of PEAL's aircraft.

Total direct costs of the FBO business were $0.7 million for the twelve month period ended December 31, 2009 as compared to $1.5 million for the same period in 2008. FBO costs were lower due to the decrease in fuel prices and lower customer volume.

Total foreign exchange gains recognized as credits to direct expenses in the twelve months ended 2009 was $2.8 million. Foreign exchange hedge gains in 2008 for the same period were $0.5 million. In January 2009 the Fund sold and settled all of its outstanding foreign exchange forward contracts held at that time and realized a gain of $2.6 million. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affect net income. Also in January 2009, prior to the sale of its remaining U.S. dollar forward purchase contracts, the Fund realized a gain of approximately $0.2 million from the settlement of a foreign exchange contract.

DIRECT EXPENSES (CONTINUED)

Depreciation recorded in direct costs for the twelve month period ended December 31, 2009 was $5.5 million as compared to $4.2 million for the same period in 2008. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in Q2 2009 and other assets purchased in 2008 required for the introduction of new aircraft.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $16.4 million for the twelve month period ended December 31, 2009 as compared to $17.3 million for the same period in 2008. The decrease of $0.9 million or 5.2% was due primarily to a reduction in linehaul costs and the effect of staff reductions made at the beginning of 2009 partially offset by higher insurance costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses were $21.2 million for the twelve month period ended December 31, 2009 compared to $19.4 million for the same period in 2008, an increase of $1.8 million or 9.3%. $2.1 million of the increase was due to management incentive plans and other employee bonuses accrued and paid in 2009. No incentive plans amounts or bonuses were accrued or paid to Cargojet employees in 2008. SG&A on account of the regional business was $1.0 million higher in the twelve month period ended December 31, 2009 as compared to the prior year due to the acquisition of PEAL and the formation of CJR. These costs were offset by gains on the repurchase of the Fund's debentures, lower legal expenses, training expenses, and cost savings achieved through a program of staff reductions and reduced discretionary spending implemented in the latter half of 2008 and early 2009.

EBITDA

EBITDA for the twelve month period ended December 31, 2009 was $23.7 million or 14.3% of revenue, compared to $16.2 million or 7.9% of revenue for the same period in 2008. The improvement in EBITDA of $7.5 million or 46.3% was due to the following:

- The improved profitability of Cargojet's core operations due primarily to reduced block hours, staff reductions and other cost saving measures that were implemented in the latter half of 2008 and in early 2009.
- One-time costs incurred in 2008 of $6.0 million of crew, sub-charter and other expenses related to the introduction of the new B767 and B757 aircraft.
- The increase in year over year foreign exchange hedge gains of $2.1 million.
- The increase in SG&A costs due to $2.1 million of management incentive plans and employee bonuses.

AMORTIZATION OF CAPITAL ASSETS

The amortization of capital assets for the twelve month period ending December 31, 2009 was $0.8 million as compared to $0.6 million in 2008, an increase of 33.3%. The $0.2 million increase was due to the acquisition of computer hardware and software during the year, the acquisition of PEAL in May 2008, and the purchase of other assets in 2008 required for the introduction of new aircraft.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL. Amortization of intangible assets for the twelve month period ended December 31, 2009 was $5.9 million as compared to $11.5 million for the same period in 2008, a decrease of $5.6 million or 48.7%. The decrease in amortization was due to the full amortization of the intangible assets that were recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets were fully amortized by the end of the second quarter of 2009. The Fund continues to amortize the net book value of intangible assets related to the acquisition of PEAL and subsequent acquisition of CJR.

INTEREST

Interest expense was $4.1 million for the twelve month period ended December 31, 2009, compared to $3.2 million for the twelve month period ended December 31, 2008. The increase in interest expense of $0.9 million or 28.1% was due primarily to the issuance of convertible debentures in April 2008 and the long-term debt acquired through the purchase of a controlling interest in PEAL on May 1, 2008.

FUTURE INCOME TAXES

The future income tax recovery of $2.3 million for the twelve month period ended December 31, 2009 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period. The Fund recorded a future income tax recovery of $0.7 million in the same period in 2008.

CURRENT INCOME TAXES

Current income taxes for the twelve month period ended December 31, 2009 was a provision of $1.4 million as compared to a recovery of $0.9 million for the twelve month period ended December 31, 2008. The provision for income taxes in 2009 includes the settlement of a tax issue with tax authorities resulting in a recovery of approximately $0.4 million. The provisions, payments and recoveries of income taxes are due to certain subsidiaries of the Fund that are taxable.

NON-CONTROLLING INTERESTS

Non-controlling interests were a charge to earnings of $1.2 million for the twelve month period ended December 31, 2009, as compared to a credit to earnings of $0.8 million for the twelve month period ended December 31, 2008. Non-controlling interests represent the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders and the non-controlling partner of CJR.

DISTRIBUTABLE CASH

Distributable cash was $8.3 million for the twelve month period ended December 31, 2009, compared to $10.1 million for the twelve month period ended December 31, 2008. The decrease in distributable cash of $1.8 million or 17.8% was due primarily to the Fund's purchase of $8.3 purchase of its own Units and Debentures offset partially by the increase in EBITDA.

DISTRIBUTIONS

Total distributions declared for the twelve month period ended December 31, 2009 were $7.1 million resulting in a payout ratio of 86%. In comparison, total distributions declared for the twelve month period ended December 31, 2008 were $8.8 million resulting in a payout ratio of 87%.

DISTRIBUTIONS (continued)

The following table summarizes the cash distributions for the twelve month period ended December 31, 2009:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	444,486	150,725	150,725	595,211	0.0675	595,211
April 30, 2009	May 15, 2009	177,267	177,267	60,290	60,290	237,557	0.0270	237,557
May 31, 2009	June 15, 2009	176,638	176,638	60,290	60,290	236,928	0.0270	236,928
June 30, 2009	July 15, 2009	175,461	175,461	60,290	60,290	235,751	0.0270	235,751
July 31, 2009	August 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
August 31, 2009	September 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
September 30, 2009	October 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
October 31, 2009	November 15, 2009	164,686	164,686	60,289	60,289	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,984	2,451,984	897,647	897,647	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		5,233,297	5,442,214	1,865,634	1,922,575	7,098,931	0.8273	7,364,789

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2009 was $15.2 million. Cash used by operating activities after net changes in non-cash working capital balances for the same period in 2008 was $11.9 million. The $3.3 million improvement in cash was due to primarily to the improved profitability in Cargojet's core overnight business, $2.8 million on the settlement of foreign exchange contracts in January 2009, the $6.0 million of one-time aircraft introduction and maintenance costs in 2008 and income taxes paid in 2008 that were refunded in 2009.

Cash used by financing activities during the twelve month period ended December 31, 2009 of $4.5 million was due primarily to distributions paid to unitholders of $7.4 million, the purchase of Cargojet Debentures and Units of $8.8 million partially offset by the proceeds from the settlement of a $2.6 million gain on the sale of foreign currency derivatives and an increase in Cargojet's long term debt through its credit facility.

Cash used in investing activities during the twelve month period ended December 31, 2009 was $8.2 million and was comprised primarily of capital asset spending of $6.7 million, the purchase of the remaining 49% of PEAL for the net amount of $0.8 million ($1.0 million paid in cash less PEAL's cash balance at the time of the Fund's acquisition of the remaining 49% of PEAL's shares), and the acquisition of CJR.

The Fund maintains a long-term credit facility that is to a maximum of $30.0 million. As at December 31, 2009 the Fund had drawn $11.1 million of its long-term credit facility. The renewed credit facility will mature in July 2011. Through its subsidiary PEAL, the Fund also maintains fixed loans with another Canadian chartered bank. PEAL's fixed loans bear interest at rates ranging from 8.1% to 8.2%. In June 2009 PEAL cancelled its credit facility with another Canadian chartered bank that was to a maximum of $1.5 million and payable on demand.

In July 2009, the Fund re-negotiated terms and conditions of PEAL's fixed loans that totalled $5.6 million as at December 31, 2009. The amortization periods of the loans have been extended by 5 years and they will all have matured by January 2022. The loans are secured by the aircraft of PEAL and guaranteed by Cargojet Airways Ltd. for 10% of the outstanding amounts. Cargojet Airways Ltd. is a wholly owned subsidiary of the Fund and the sole shareholder of PEAL. The guarantees provided by Cargojet Airways Ltd. replace the guarantees provided by the previous minority shareholder of PEAL.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

CAPITAL EXPENDITURES

Capital asset additions were $6.7 million for the twelve month period ended December 31, 2009 as compared to $21.2 million for the same period in 2008. Capital additions for the twelve month period ended December 31, 2009 were comprised of $3.2 million of maintenance capital expenditures and $3.5 million of growth capital expenditures. Growth capital expenditures included $3.0 million for the new hangar.

As a result of Cargojet's acquisition of the remaining 49% of PEAL during the twelve month period ended December 31, 2009, the net book value of PEAL's fixed assets was reduced by $0.7 million to account for the difference between the fair and book values of the net assets acquired in the transaction.

Capital asset additions for the twelve month period ended December 31, 2008 were comprised of $3.7 million of maintenance capital expenditures, $16.7 million of growth capital expenditures and $0.7 million of leased assets. Growth capital expenditures included $7.5 million for the new hangar, $1.0 million for the purchase of existing warehouse and office space at the Hamilton International Airport from a related party, $4.5 million for two B727 aircraft that had previously been leased, and various aircraft leaseholds, rotables and support equipment related to the introduction of the new B757 and B767 aircraft.

FINANCIAL CONDITION

The following is a comparison of the financial position of the Fund as at September 30, 2009 to the financial position of the Fund as at December 31, 2008.

ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2009 was $10.2 million as compared to $10.1 million as at December 31, 2008. The increase of $0.1 million was due to primarily to the difference in the timing of weekly customer billing and cash receipts at quarter and year end. The quality of the Fund's net receivable balances and its current collections, in management's opinion, remains excellent.

CAPITAL ASSETS

As at December 31, 2009 net capital assets were $56.8 million as compared to $57.3 million as at December 31, 2008. The $0.5 million net decrease in capital assets was due to $6.7 million of capital additions offset by the amortization of capital assets and a credit to the net book value of the capital assets of PEAL that resulted from Cargojet's acquisition of the remaining 49% of PEAL in July 2009. The net book value of PEAL's fixed assets was reduced by $0.7 million to account for the difference between the fair values and book values of the net assets acquired in the transaction.

INTANGIBLE ASSETS

Intangible assets as at December 31, 2009 were $4.5 million as compared to $9.6 million as at December 31, 2008. The decrease of $5.1 million was due to amortization of $5.9 million offset by a debit to the book value of the intangible assets of PEAL that resulted from Cargojet's acquisition of the remaining 49% of PEAL in July 2009. The net book value of PEAL's intangible assets was increased by $0.7 million to account for the difference between the fair values and book values of the net intangible assets acquired in the transaction.

ACCOUNTS PAYABLE AND ACCRUED CHARGES

Accounts payable and accrued charges as at December 31, 2009 was $12.5 million as compared to $17.0 million as at December 31, 2008. The decrease of $4.5 million was due primarily to the timing of supplier payments, the payment of accrued construction costs for the new hangar, and the decrease in overall operating expenses including fuel and payroll.

DEFERRED HEAVY MAINTENANCE AND HEAVY MAINTENANCE DEPOSITS

The balance of total deferred heavy maintenance expenditures as at December 31, 2009 was $2.1 million as compared to $1.5 million as at December 31, 2008. The increase of $0.6 million is due to heavy maintenance expenditure additions of $2.8 million offset by amortization of $2.2 million. In comparison, total heavy maintenance expenditure additions for the twelve month period ended December 31, 2008 were $2.1 million and amortization of deferred heavy maintenance for this period was $2.8 million.

The balance of total heavy maintenance deposits as at December 31, 2009 was $2.0 million compared to $1.3 million as at December 31, 2008. Heavy maintenance deposits are paid to aircraft lessors on a monthly basis. Cargojet receives a refund of these payments when it incurs actual heavy maintenance expenditures. During the year, Cargojet entered into an engine maintenance agreement with the lessor of its B767 aircraft that replaces engine reserve deposit payments with a monthly charge based on engine flight hours. As a result, during the twelve month period ended December 31, 2009, Cargojet expensed $0.9 million of heavy maintenance deposits related to engine reserves for its B767 aircraft.

WORKING CAPITAL POSITION

The Fund had positive working capital as at December 31, 2009, representing the difference between total current assets and current liabilities, of $2.6 million, compared to a working capital deficit of $0.8 million as at December 31, 2008. The increase in working capital was due to the timing of loan repayments.

LONG-TERM DEBT

Total long-term debt excluding the current portion was $16.5 million as at December 31, 2009 as compared to $6.8 million as at December 31, 2008. The long-term debt consists of Cargojet's revolving credit facility and fixed loans related to PEAL. The increase in long term debt was due to the purchase of the Fund's Units and Debentures and the timing of loan repayments.

CONVERTIBLE DEBENTURES

During the twelve month period ended December 31, 2009, the Fund purchased $3.5 million in face value of its outstanding 7.5% convertible unsecured subordinated debentures (the "Debentures") for $2.9 million at an average price of $811 per Debenture, ($798 per Debenture excluding accrued interest). The purchases were made under an approved normal course issuer bid authorized from March 17, 2009 to March 16, 2010 through the facilities of the Toronto Stock Exchange ("TSX"). Debentures purchased pursuant to the bid were cancelled.

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the "Purchase Price").

Upon the expiry of the Offer on January 15, 2010, an aggregate of $7.5 million principal amount of its Debentures was deposited under the Offer. The Fund took up and accepted for purchase and cancellation all of the deposited Debentures at a Purchase Price of $1,010 per $1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on the Debentures up to January 15, 2010, for an aggregate purchase price of $7.7 million for all Debentures taken up. All Debentures purchased pursuant to the Offer were cancelled.

SUMMARY OF CONTRACTUAL OBLIGATIONS

	Payments due by Period						
As at December 31, 2009	Total	2010	2011	2012	2013	2014	Thereafter
(in thousands)	$	$	$	$	$	$	$
Long-term debt	5,578	429	438	448	459	470	3,334
Credit facility	11,131	-	11,131	-	-	-	-
Financing loan	29	29	-	-	-	-	-
Capital lease obligations	399	210	154	35		-	-
Operating leases	73,269	14,266	12,570	12,146	12,022	11,253	11,032
Total contractual obligations	90,406	14,934	24,293	12,629	12,461	11,723	14,366

OFF-BALANCE SHEET ARRANGEMENTS

The Fund does not have any off-balance sheet arrangements other than those disclosed under “Summary of Contractual Obligations”.

TRANSACTIONS WITH RELATED PARTIES

During the twelve month period ended December 31, 2009 the Fund did not transact with any related companies.

During the twelve month period ended December 31, 2008 the Fund had transactions with its related company, Flagship Aviation. The company is controlled by one of the Fund’s executive officers. Total transactions amounted to $0.3 million and were in the normal course of operations. These transactions were related to a warehouse lease agreement that the Fund had entered into with Flagship Aviation for a warehouse and office building at the Hamilton International Airport.

In October 2008 Fund entered into an agreement with Flagship Aviation to purchase the warehouse and office building at the Hamilton International Airport for approximately $1.0 million plus applicable taxes. Flagship Aviation is controlled by one of the Fund’s executive officers.

SEGMENTED INFORMATION

The Fund's business falls under one dominant industry segment, the air cargo transportation industry in Canada. The Fund operates its business as two distinct operating segments: the National Overnight Air Cargo ("National") segment that provides service to 13 major cities across Canada utilizing a fleet of large jet engine aircraft, and the Regional Overnight Air Cargo ("Regional") segment that provides service to thirty-three smaller cities in Ontario, Quebec and the Maritime provinces utilizing a fleet of smaller turboprop aircraft.

In July 2009 the Fund completed the acquisition of the remaining 49% of PEAL. Immediately following this transaction, PEAL entered into a partnership agreement with SkyLink Express Inc. to consolidate their regional cargo businesses. The new partnership began operations under the name Cargojet Regional ("CJR") on August 1, 2009. CJR's annual revenues are approximately $23.0 million and it currently employs over 130 people. The Regional segment includes all of the operations of PEAL and CJR.

The performance of each operating segment is regularly evaluated by the Management of the Fund who assesses performance and decides on the allocation of resources. The performance of the Fund's operating segments is measured on earnings before income taxes and non-controlling interest. Inter-segment transactions are reflected at market value. The following pages provide a breakdown by reporting segment for the three and twelve month periods ended December 31, 2009 and December 31, 2008.

SEGMENTED INFORMATION (continued)

RESULTS OF OPERATIONS AND CAPITAL EXPENDITURES BY REPORTING SEGMENT FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2009 AND 2008 (IN THOUSANDS)

	Three Month Period Ended December 31, 2009			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	37,233	6,711	(470)	43,474
Direct expenses	27,005	6,429	(470)	32,964
	10,228	282	-	10,510
Selling, general and administrative expenses				
Sales and marketing	178	3	-	181
General and administrative	4,548	605	-	5,153
Interest, net	1,127	69	-	1,196
Amortization of capital assets	210	26	-	236
Amortization of intangible assets	181	64	-	244
	6,244	767	-	7,010
Income (loss) before income taxes and non-controlling interest	3,984	(485)	-	3,500
Total Capital Expenditures	962	833	-	1,795

	Three Month Period Ended December 31, 2008			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	47,163	6,826	(330)	53,659
Direct expenses	36,117	6,443	(330)	42,230
	11,046	383	-	11,429
Selling, general and administrative expenses				
Sales and marketing	224	20	-	244
General and administrative	3,576	355	-	3,931
Interest, net	859	162	-	1,021
Amortization of capital assets	164	-	-	164
Amortization of intangible assets	2,573	620	-	3,194
	7,396	1,157	-	8,554
Income (loss) before income taxes and non-controlling interest	3,650	(774)	-	2,875
Total Capital Expenditures	12,506	114	-	12,620

SEGMENTED INFORMATION (continued)

RESULTS OF OPERATIONS AND CAPITAL EXPENDITURES BY REPORTING SEGMENT FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2009 AND 2008 (IN THOUSANDS)

	Twelve Month Period Ended December 31, 2009			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	144,668	23,078	(1,582)	166,164
Direct expenses	104,215	23,143	(1,582)	125,776
	40,453	(65)	-	40,388
Selling, general and administrative expenses				
Sales and marketing	575	20	-	595
General and administrative	19,081	1,934	-	21,016
Gain on debenture redemption	(401)	-	-	(401)
Interest, net	3,606	455	-	4,061
Amortization of capital assets	726	29	-	756
Amortization of intangible assets	4,628	1,258	-	5,886
	28,215	3,696	-	31,913
Income (loss) before income taxes and non-controlling interest	12,238	(3,761)	-	8,475
Total Capital Expenditures	5,600	1,107	-	6,707

	Twelve Month Period Ended December 31, 2008			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	185,746	20,801	(872)	205,675
Direct expenses	154,577	19,949	(872)	173,654
	31,169	852	-	32,021
Selling, general and administrative expenses				
Sales and marketing	903	52	-	955
General and administrative	17,350	1,002	-	18,352
Interest, net	2,723	451	-	3,174
Amortization of capital assets	607	-	-	607
Amortization of intangible assets	10,209	1,329	-	11,538
	31,792	2,834	-	34,626
Income (loss) before income taxes and non-controlling interest	(623)	(1,982)	-	(2,605)
Total Capital Expenditures	21,363	12,254	-	33,617

MAJOR CUSTOMERS

During the three and twelve month periods ending December 31, 2009, the Fund had sales to three customers that represented 52% and 51% of the total revenues respectively and these customers were reported entirely in the National segment. During the three and twelve month periods ending December 31, 2008, the Fund had sales to three customers that represented 45% and 44% of the total revenues respectively. These sales are provided under service agreements that expire over various periods to September 2014. All three of these customers had sales in excess of 10% of total revenues during the three month period ended December 31, 2009 and during the three and twelve month periods ended December 31, 2008. Two of these customers each had sales in excess of 10% of total revenues during the twelve month period ended December 31, 2009.

CONTINGENCIES

The Fund has provided irrevocable standby letters of credit totalling approximately $1.0 million to a financial institution as security for its corporate credit cards and to a number of vendors as security for the Fund's ongoing purchases.

FINANCIAL INSTRUMENTS

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions.

The Fund has entered into U.S. dollar forward purchase contracts to reduce uncertainty surrounding Canadian dollar value of anticipated cash flows where it has significant foreign exchange exposure to U.S. currency fluctuations. All contracts were executed according to the Fund's foreign exchange risk management policy. In May 2009 the Fund entered into a series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by June 2011. In October 2009, the Fund entered into an additional series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by October 2011. As at December 31, 2009, the remaining forty contracts had a negative fair value of $0.5 million that was recorded as a liability on the balance sheet. These contracts were designated as hedges at December 31, 2009. On January 1, 2010 the Fund discontinued hedge accounting and will recognize the deferred loss of its remaining forty foreign exchange contracts in the same periods in which the hedged anticipated transactions will affect net income.

In January 2009 the Fund realized gains of approximately $2.8 million from the settlement and sale of all of the Fund's U.S. dollar forward purchase contracts held as at December 31, 2008. These gains were recognized throughout 2009 in net income in the same periods that the anticipated transactions to which the hedges related would have affected net income.

SUBSEQUENT EVENTS

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the "Purchase Price"). Upon the expiry of the Offer on January 15, 2010, an aggregate of $7.5 million principal amount of its Debentures was deposited under the Offer. The Fund took up and accepted for purchase and cancellation all of deposited Debentures at a Purchase Price of $1,010 per $1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on the Debentures up to January 15, 2010, for an aggregate purchase price of $7.7 million for all Debentures taken up. All Debentures purchased pursuant to the Offer were cancelled.

OUTLOOK

Cargojet continues to mitigate the effects of lower revenues and competitive pricing pressures through the pro-active management of its fleet capacity, control over its cost structure, and the pursuit of new customers and markets. These actions combined with the excellent performance of the new aircraft have resulted in strong earnings throughout the past five quarters ending December 31, 2009.

The Fund continues to recover fuel price increases through fuel surcharges. Any fuel cost increases due to higher fuel prices are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Similarly, any cost savings due to lower fuel prices are passed on to customers as a decrease in fuel surcharge. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

Management's principal objective is to maximize free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls, and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives especially those that can improve cash flow.

Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of additional Units. Any decisions regarding the above, including further increases or decreases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

CRITICAL ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The more significant items requiring the use of management estimates are the determinations of the allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies, rotables and the valuation of intangible assets. The table below discloses the methodology used by management in the assessment of these accounting estimates.

Critical Accounting Estimate	**Methodology and Assumptions**
Financial instruments	All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held to maturity investments, loans and receivables, and other liabilities, which are measured at amortized cost.
Capital assets	An impairment loss is recognized when events or circumstances indicate that the carrying amount of the capital asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.
Goodwill	Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the statement of operations and deficit before income taxes and non-controlling interest.
Valuation of intangible assets that have a finite life	Intangible assets that have a finite life, such as customer relationships and non-compete agreements, are capitalized and are amortized on a straight-line basis over a three or four-year period or the term of the non-compete agreement, respectively, and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

INCOME TAXES

The Fund is taxed as a “mutual fund trust” for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund's subsidiaries are taxable.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets would be recorded in the financial statements to the extent that realization of such benefit is more likely than not.

INFORMATION DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures within the Fund and the General Partner (“GP”) are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Trustees of the Fund and the Directors of the GP. An evaluation of the effectiveness of the Fund’s and the GP’s disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2009 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

FINANCIAL REPORTING UPDATE

CHANGES IN ACCOUNTING: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill, intangible assets and deferred costs. CICA Handbook Section 1000, *Financial Statements Concepts*, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Fund beginning January 1, 2009. Application of these standards had no impact on the Fund's financial statements.

In June 2009, the CICA issued amendments to Handbook Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements around fair value measurement for financial instruments and liquidity risk associated with financial instruments. These amendments resulted in enhanced disclosures regarding the fair value measurement of financial assets and liabilities and liquidity management. The adoption of these amendments had no effect on the Fund's financial position, operations or cash flows.

The Fund adopted the CICA Emerging Issues Committee Abstract 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). EIC-173 provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 had no impact on the Fund's financial statements.

FUTURE ACCOUNTING CHANGES

In January 2009, the AcSB issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier applications permitted.

In January 2009, the AcSB issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted.

The Fund is currently assessing the impact of these standards on its financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board has confirmed that use of International Financial Reporting Standards ("IFRSs") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for these enterprises. These new standards will be effective for the Fund on January 1, 2011 and the Fund has selected this date for the adoption of IFRS. The Fund expects that the transition to IFRS will impact its accounting and financial policies, processes and systems. The Fund has commenced its initial planning and analysis process to convert its consolidated financial statements to IFRS by January 1, 2011.

The Fund's IFRS implementation project consists of three phases. The objective of the first phase is to prepare an IFRS conversion plan based on a gap assessment between the current state and the required future state. To that end, the Fund has engaged its auditors to assist in completing the first phase by providing the following services:

FINANCIAL REPORTING UPDATE
(CONTINUED)

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

- Completion of a diagnostic assessment, showing the differences between the Fund's current accounting policies under Canadian Generally Accepted Accounting Principles ("GAAP") and IFRS.
- Identification of the impact of IFRS on other business functions of the Fund.
- Preparation of the project plan.

The second phase of the Fund's IFRS implementation project began immediately following the first phase and involves the execution of the project plan. During the second phase, Cargojet will:

- Make policy and disclosure choices required under IFRS
- Design and implement business and accounting processes that facilitate the collection of data required under IFRS in a timely and accurate manner
- Design and implement internal controls required by the new business and accounting processes
- Design and implement new financial reports and tax calculations

The second phase of the Fund's IFRS implementation project will be completed in 2010 and will result in the comprehensive conversion of the Fund to IFRS and completion of IFRS financial statements for the 2010 fiscal year.

The last phase of the Fund's IFRS implementation project begins with the adoption of IFRS on January 1, 2011. All new processes, controls and reports will be implemented and monitored to ensure that they are effective and sustainable.

During its initial planning and analysis process, the Fund identified potential significant differences between IFRS and GAAP as follows:

- First-time adoption of IFRS
- Business combinations
- Property, plant and equipment
- Impairment
- Financial presentation and disclosure

The Fund has not yet quantified the effects of the potential significant differences between IFRS and GAAP.

As part of the initial assessment to identify key areas that may be impacted by IFRS, Cargojet also identified the need to upgrade its existing financial system. The Fund has completed the financial system upgrade and the first phase of its IFRS implementation project as of the date of this MD&A.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and the Chief Financial Officer have evaluated the design and effectiveness of the Fund's internal controls over financial reporting based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2009, management assessed the effectiveness of the Fund's internal controls over financial reporting and concluded that the Fund's internal controls over financial reporting were effective. Management did not identify any material weaknesses in the Fund's internal controls over financial reporting.

There have been no changes in the Fund's internal controls over financial reporting during the twelve month period ended December 31, 2009 that have materially affected, or are likely to materially affect, the Fund's internal controls over financial reporting.

END NOTES

(A) All references to "EBITDA" in the Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, future income tax recovery, provision for current income taxes, non-controlling interest, gain or loss on disposal of capital assets and amortization of aircraft heavy maintenance expenditures". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of amortization, gain or loss on disposal of capital assets, amortization of aircraft heavy maintenance expenditures and future income tax recovery), or non-operating (in the case of interest on long-term debt, provision for current income taxes and non-controlling interest). The underlying reasons for exclusion of each item are as follows:

Amortization - as a non-cash item, amortization has no impact on the determination of EBITDA and distributable cash.

Interest on long-term debt - interest on long-term debt is a function of the Fund's treasury/financing activities and represents a different class of expense than those included in EBITDA.

Future income tax recovery - the calculation of future income tax recoveries is a function of temporary differences between the financial reporting and the tax basis of balance sheet items for calculating tax expense and are separate from the daily operations of the Fund.

Provision for current income taxes - the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

Non-controlling Interests - non-controlling interests represent a direct non-controlling interest in Cargojet Holdings Limited Partnership through exchangeable LP units and the non-controlling shareholders of PEAL. Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

Gain or loss on disposal of capital assets - the gain or loss arising from the disposal of capital assets. As a non-cash item, the gain or loss on disposal of capital assets has no impact on the determination of EBITDA and distributable cash.

Gain or loss on disposal of intangible assets - the gain or loss arising from the disposal of capital assets. As a non-cash item, the gain or loss on disposal of intangible assets has no impact on the determination of EBITDA and distributable cash.

Amortization of aircraft heavy maintenance expenditures - amortization of aircraft heavy maintenance expenditures represents a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance expenditures and deposits incurred in the period; accordingly, this expense represents a different class of expense than those included in EBITDA.

(B) The Fund has adopted a measurement called distributable cash to supplement net earnings as a measure of operating performance. Distributable cash is a term, which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other Funds. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unitholders and exchangeable LP unitholders. Exchangeable LP unitholders are presented as non-controlling interest in the consolidated financial statements of the Fund, however, management of the Fund has elected to include the holdings of the exchangeable LP unitholders in the calculation of distributable cash as exchangeable LP unitholders' distributions are economically equivalent to those received by trust unitholders and exchangeable LP unitholders are exchangeable on a one-to-one basis for Units of the Fund. The PEAL and CJR non-controlling interests are excluded from the calculation of distributable cash. Distributable cash is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "distributable cash" have the meaning set out in this note.

Management's Report to the Unitholders

The consolidated financial statements of the Cargojet Income Fund and all information in this annual report are the responsibility of management and have been approved by the Board of Trustees.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of the Cargojet Income Fund has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The board of Trustees carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees.

These financial statements have been audited by the external auditors, Deloitte & Touche LLP, Chartered Accountants, whose report follows.

Dr. Ajay K. Virmani

President and Chief Executive Officer
February 2010

Auditors' Report to the Unitholders

Deloitte.

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheets of Cargojet Income Fund as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

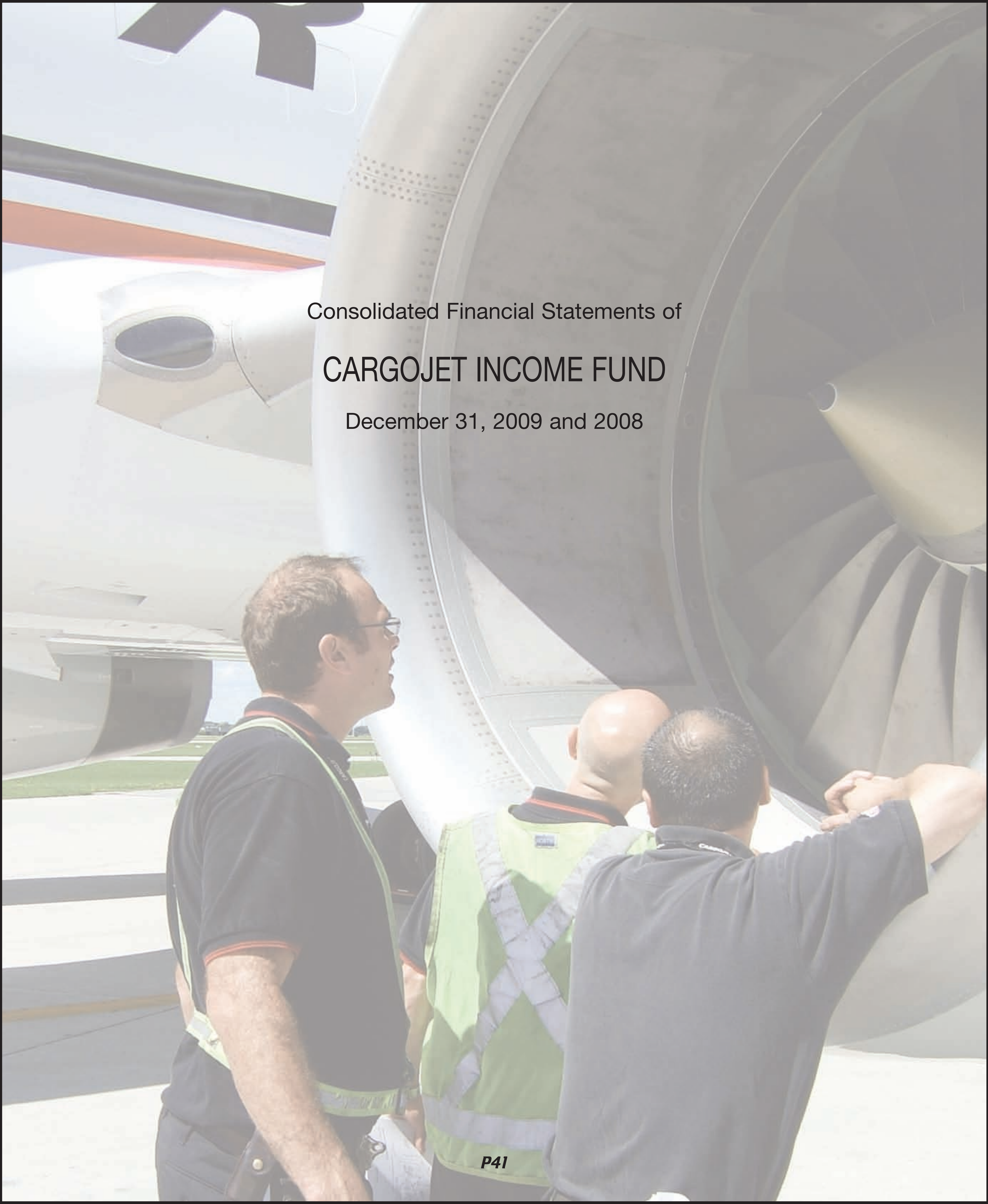
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 25, 2010

Member of
Deloitte Touche Tohmatsu



Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2009 and 2008

CARGOJET INCOME FUND
Consolidated Balance Sheets
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
ASSETS		
CURRENT		
Cash	3,031,764	569,194
Accounts receivable	10,217,959	10,070,944
Materials and supplies	808,907	863,559
Prepaid expenses and deposits	3,558,439	4,337,814
Note receivable (Note 4)	800,000	-
Income taxes recoverable	-	1,267,996
Future income taxes (Note 11)	177,118	-
Derivatives contracts (Note 16)	-	2,148,558
	18,594,187	19,258,065
CAPITAL ASSETS (NOTE 5)	56,790,848	57,314,869
NOTE RECEIVABLE (NOTE 4)	2,066,667	-
INTANGIBLE ASSETS (NOTE 6)	4,503,704	9,573,776
DEPOSITS	3,859,283	3,070,255
DEFERRED HEAVY MAINTENANCE (NOTE 7)	2,132,212	1,471,773
GOODWILL	46,865,907	46,169,976
	134,812,808	136,858,714
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 8)	12,517,157	16,962,594
Income taxes payable	1,946,834	-
Derivatives contracts (Note 16)	538,713	-
Distributions payable (Note 18)	335,723	601,581
Current portion of long-term debt (Note 9)	666,150	1,829,372
Future income taxes (Note 11)	-	706,445
	16,004,577	20,099,992
LONG-TERM DEBT (NOTE 9)	16,470,022	6,759,015
CONVERTIBLE DEBENTURES (NOTE 10)	29,723,081	32,180,372
FUTURE INCOME TAXES (NOTE 11)	4,643,958	6,939,739
	66,841,638	65,979,118
NON-CONTROLLING INTERESTS (NOTE 12(b))	21,270,060	19,783,606
UNITHOLDERS' EQUITY		
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(360,691)	1,442,112
DEFICIT	(9,991,256)	(14,751,848)
	(10,351,947)	(13,309,736)
UNITHOLDERS' CAPITAL (NOTE 12(a))	53,517,349	62,054,322
CONTRIBUTED SURPLUS (NOTES 10, 12(d))	1,490,981	82,738
CONVERSION OPTION (NOTE 10)	2,044,727	2,268,666
	46,701,110	51,095,990
	134,812,808	136,858,714

The accompanying notes are an integral component of the financial statements.

John P. Webster
Trustee

Dr. Ajay K. Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
REVENUES	166,163,797	205,675,100
DIRECT EXPENSES	125,776,250	173,654,562
	40,387,547	32,020,538
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	594,764	954,535
General and administrative (Note 5)	21,015,313	18,351,779
Gain on debenture redemption	(400,853)	-
Interest, net	4,061,873	3,173,753
Amortization of capital assets (Note 5)	755,481	607,489
Amortization of intangible assets	5,886,260	11,538,019
	31,912,838	34,625,575
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	8,474,709	(2,605,037)
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 11)		
Current	1,435,809	(893,676)
Future	(2,295,781)	(660,094)
	(859,972)	(1,553,770)
EARNINGS (LOSS) BEFORE NON-CONTROLLING INTERESTS	9,334,681	(1,051,267)
NON-CONTROLLING INTERESTS (NOTE 12(b))	(1,169,328)	763,581
NET INCOME (LOSS)	8,165,353	(287,686)
DEFICIT, BEGINNING OF YEAR	(14,751,848)	(7,923,776)
REPURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 12(d))	1,828,536	45,958
DISTRIBUTIONS DECLARED IN THE YEAR (NOTE 18)	(5,233,297)	(6,586,344)
DEFICIT, END OF YEAR	(9,991,256)	(14,751,848)
EARNINGS (LOSS) PER TRUST UNIT - BASIC (Note 12(c))	1.28	(0.04)
EARNINGS (LOSS) PER TRUST UNIT - DILUTED (Note 12(c))	1.28	(0.04)

The accompanying notes are an integral component of the financial statements.

CARGOJET INCOME FUND

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Years ended December 31, 2009 and 2008

	2009	2008
	$	$
NET INCOME (LOSS)	8,165,353	(287,686)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency gains (losses) from hedging activities net of income taxes (Note 16)	118,380	1,870,389
Transfer of gains on foreign exchange contracts, net of income taxes, to net income (Note 16)	(1,921,183)	(428,277)
COMPREHENSIVE INCOME	6,362,550	1,154,426
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	1,442,112	-
Other comprehensive income (loss) for the year	(1,802,803)	1,442,112
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	(360,691)	1,442,112

The accompanying notes are an integral component of the financial statements.

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
NET INFLOW (OUTFLOW) OF CASH		
RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss)	8,165,353	(287,686)
Items not affecting cash		
Amortization of capital assets (Note 5)	6,293,079	5,156,688
Amortization of intangible assets	5,886,260	11,538,019
Amortization of note receivable (Note 4)	333,333	-
Accretion of convertible debentures	751,763	588,358
Loss on disposal of capital assets	69,742	960,187
Gain on disposal of intangible assets	(160,401)	(1,149,352)
Gain on purchase of debentures	(400,853)	-
Future income taxes	(2,295,781)	(660,094)
Transfer of gains on derivatives from other comprehensive income	(2,599,095)	-
Change in fair value on non-hedge derivatives	-	66,009
Non-controlling interests	1,169,328	(763,581)
Aircraft heavy maintenance amortization	2,090,471	2,813,214
Aircraft heavy maintenance expenditures	(2,750,910)	(2,097,755)
	16,552,289	16,164,006
Changes in non-cash working capital items and deposits		
Accounts receivable	(147,015)	881,501
Materials and supplies	54,652	117,841
Prepaid expenses and deposits	(9,653)	(4,221,415)
Accounts payable and accrued charges	(4,445,434)	1,982,041
Income taxes payable/recoverable	3,214,830	(3,057,996)
	15,219,669	11,865,979
FINANCING		
Repayment of long-term debt	(722,824)	(16,886,083)
Increase in long-term debt	9,270,609	-
Proceeds from disposition of derivatives	2,600,000	-
Purchase of Trust units (Note 12(d))	(5,524,133)	(52,636)
Purchase of convertible debentures (Note 10)	(2,808,202)	-
Distributions paid to unitholders and non-controlling interest	(7,364,789)	(9,041,679)
Proceeds from convertible debentures	-	33,860,680
	(4,549,339)	7,880,282
INVESTING		
Additions to capital assets	(6,707,254)	(21,204,930)
Proceeds from disposal of capital assets	212,667	-
Acquisition of businesses (Note 4)	(1,713,173)	(1,170,082)
	(8,207,760)	(22,375,012)
NET CHANGE IN CASH	2,462,570	(2,628,752)
CASH POSITION, BEGINNING OF YEAR	569,194	3,197,946
CASH POSITION, END OF YEAR	3,031,764	569,194
Supplementary financial information		
Interest paid	3,290,692	2,391,781
Income taxes paid (refunded)	(1,720,867)	(11,976)
Equipment purchased under capital lease	38,474	658,810

The accompanying notes are an integral component of the financial statements.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

1. NATURE OF THE BUSINESS

Cargojet Income Fund (the "Fund") is an unincorporated opened-ended limited purpose trust established under the laws of Ontario pursuant to a Declaration of Trust dated April 25, 2005. The Fund was created to invest in Cargojet Holdings Ltd. (the "Company" or "Cargojet"). The Fund acquired all of the shares of Cargojet on June 9, 2005.

The Fund provides domestic and trans-border air cargo services in addition to aircraft handling and aircraft and airport equipment fueling services through its Fixed Base Operations ("FBO") business at the Hamilton International Airport.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, Cargojet Operating Trust, and its 72% (2008 – 75%) owned subsidiary Cargojet Holdings Limited Partnership ("CHLP"), CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd., Cargojet Partnership, Cargojet Airways Ltd. and Prince Edward Air Ltd., and Prince Edward Air Ltd.'s 55% interest in Cargojet Regional Partnership.

Materials and supplies

Materials and supplies are valued at average cost less provision for obsolescence.

Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance basis, except for leasehold improvements, propeller aircraft and engines which are amortized on the straight-line basis, at the following rates per annum:

Jet aircraft	-	7-1/2%
Propeller aircraft	-	20 years
Spare parts	-	actual usage
Engines	-	engine cycles and 20 years
Ground equipment	-	20% to 40%
Rotable spares	-	7-1/2%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	short of useful life and lease term
Vehicles	-	30%
Hangar facility	-	10%

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and intangible assets

Goodwill represents the excess, at the dates of acquisition, of the cost of an acquired business over the fair value of the net identifiable assets acquired.

Goodwill and intangible asset with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the statement of operations before income taxes and non-controlling interest.

Intangible assets, such as licenses, that have an indefinite useful life, are also tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in the statement of operations for the excess, if any.

Intangible assets that have a finite life, such as customer relationships and non-compete agreements, are capitalized and are amortized on a straight-line basis over a three or four-year period or the term of the non-compete agreement, respectively, and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

Impairment of long-lived assets

An impairment loss is recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

Heavy maintenance

The Fund recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months).

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Fund is taxed as a “mutual fund trust” for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund’s subsidiaries are taxable.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recorded in the financial statements to the extent that realization of such benefit is more likely than not.

Non-controlling interests

Non-controlling interests represent direct non-controlling equity interests through exchangeable limited partnership units in CHLP and the non-controlling equity interest in Cargojet Regional Partnership. Exchangeable units are entitled to earnings that are economically equivalent to distributions of the Fund. The exchangeable units were recorded at the value at which the Fund’s Trust Units were issued to the public through the initial public offering. Exchanges of exchangeable units are recorded at the carrying value of the exchangeable units at issuance net of net earnings and distributions attributable to participating exchangeable units to the date of exchange.

Revenue recognition

Revenue is recognized when delivery occurs and the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from ACMI (aircraft, crew, maintenance and insurance) cargo services is recorded when the cargo service has been provided at a fixed daily rate to operate a specific route. The customer is otherwise responsible for all commercial activities and any costs incurred in excess of the ACMI services are invoiced to the customer at cost.

Revenue from ACMI passenger services is billed on the basis of a contracted ACMI rate and recorded when the services have been provided. Any costs incurred in excess of ACMI services are invoiced to the customer at cost.

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental becomes due.

Revenue from fuelling services is billed on the basis of prevailing rates at the time of sale and recorded when the sale is completed.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at rates of exchange prevailing at the period end. Gains or losses resulting from such translations are included in income.

Transactions in foreign currencies throughout the period have been converted at the exchange rate prevailing at the date of the transaction.

Financial instruments

All financial assets are classified as either held for trading, held to maturity investments, loans and receivables or available-for-sale. All financial liabilities are classified as either held for trading or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held to maturity investments, loans and receivables, and other liabilities, which are measured at amortized cost.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable, note receivable, and deposits	Loans and receivables	Amortized cost
Accounts payable and accrued charges, distributions payable, convertible debentures and long-term debt	Other financial liabilities	Amortized cost
Derivative contracts	Held for trading	Fair value

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest method.

Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair value of the financial instrument in the period.

Derivative financial instruments and hedges

Derivative financial instruments are utilized by the Fund in the management of its interest rate and foreign currency exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative financial instruments are recorded at their fair values.

The Fund periodically enters into interest rate swaps in order to manage its exposure to fluctuations in interest rates on its floating rate debt. These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Fund periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedges (continued)

Derivatives designated as hedges are measured at fair value. Changes in the fair value of a derivative which hedges the Fund's exposure to changes in the fair value of an asset or liability (a fair value hedge) are recognized in net income together with those of the respective offsetting hedged items. Changes in the fair vale of a derivative which effectively hedges the Fund's exposure to changing cash flows (a cash flow hedge) are accumulated in other comprehensive income until the transactions being hedged affect net income.

If a hedge item is sold or otherwise ceases to exist and is not replaced, any gains, losses, revenue or expenses associated with the hedging item that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward and recognized in net income in the same period or periods during which the hedged anticipated transaction affects net income.

Convertible debentures

The component parts of compound instruments issued by the Fund are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability and equity components are measured separately, and to the extent necessary, are adjusted on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, and is not subsequently remeasured.

On the early redemption or repurchase of convertible debentures, the Fund allocates the consideration paid on extinguishment to the liability and equity elements of the convertible debentures based on their relative fair values at the date of the transaction. Any resulting gain or loss relating to the liability element is credited or charged to income and the difference between the carrying amount and the amount considered to be settled relating to the holder option elements is treated as a capital transaction.

Management's use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant items requiring the use of management estimates are the obsolescence of spare parts, materials, supplies and rotable spares, the valuation of capital and intangible assets and their related amortization, the valuation of goodwill and the allocation of fair values to assets acquired and liabilities assumed on business acquisitions.

3. CHANGES IN ACCOUNTING

Adoption of new and revised accounting standards

On January 1, 2009, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes standards for recognition, measurement, presentation and disclosure of goodwill, intangible assets and deferred costs. Application of this pronouncement had no impact on the Fund's financial results.

CARGOJET INCOME FUND
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3. CHANGES IN ACCOUNTING (continued)

Adoption of new and revised accounting standards (continued)

In June 2009, the CICA issued amendments to Handbook Section 3862, Financial Instruments — Disclosures, to include additional disclosure requirements around fair value measurement for financial instruments and liquidity risk associated with financial instruments. These amendments resulted in enhanced disclosures regarding the fair value measurement of financial assets and liabilities and liquidity management. The adoption of these amendments had no effect on the Fund's financial position, operations or cash flows. The Fund has included these additional disclosures in Note 16.

The Fund adopted the CICA Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. Application of this pronouncement had no impact on the Fund's financial results.

Future accounting changes

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier applications permitted.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted.

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Fund has established a preliminary timeline for the execution and completion of its IFRS conversion project. The impact of IFRS on the Fund's financial statements is not reasonably determinable at this time.

4. BUSINESS COMBINATIONS AND FORMATION OF PARTNERSHIP

(a) Acquisition of Prince Edward Air Ltd.

Effective May 1, 2008, the Fund acquired 51% of the outstanding common shares of Prince Edward Air Ltd. ("PEAL"), a privately-owned regional operator of cargo aircraft in Eastern Canada. The acquired operations have been included in the consolidated financial statements of the Fund from that date.

Consideration for the purchase was $5,370,082, comprised of a cash payment of $1,000,000, the transfer of the Fund's existing regional business and related assets valued at $4,200,000, and transaction costs of $170,082. The transfer of the Fund's assets resulted in a gain of $1,149,352, that has been recorded in the statement of operations of the Fund under general and administrative expenses.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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4. BUSINESS COMBINATIONS AND FORMATION OF PARTNERSHIP (continued)

(a) Acquisition of Prince Edward Air Ltd. (continued)

The following table summarizes the allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	$
Accounts receivable	642,308
Inventories	18,362
Prepaid expenses	169,798
Capital assets	5,994,149
Intangible assets	
Customer contracts	3,773,785
Non-compete agreements	1,043,777
Bank overdraft	(582,655)
Accounts payable and accrued charges	(747,882)
Long-term debt	(3,336,964)
Future tax liability	(1,604,596)
Total consideration	5,370,082

Effective August 1, 2009, the Fund acquired the remaining 49% common share interest in PEAL that it did not already own. Consideration for the purchase was $832,586, comprised of a cash payment of $1,000,000, transaction costs of $17,241 and net of cash acquired of $184,656.

The acquisition has been accounted for under the purchase method of accounting. Accordingly, the Fund allocated the purchase price to the identifiable assets and liabilities acquired based on their estimated fair value at the time of acquisition.

The operations of PEAL have been consolidated on a 100% basis in the consolidated statements of operations and comprehensive income and cash flows from August 1, 2009. The purchase price is considered preliminary until the Fund has obtained the necessary information to complete its allocation. As a result, the purchase price allocation may be adjusted in 2009. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows:

	$
Accounts receivable	1,420,763
Inventories	19,416
Prepaid expenses	151,015
Capital assets	4,034,606
Intangible assets	1,916,444
Accounts payable and accrued charges	(3,113,064)
Long-term debt	(2,492,117)
Future tax liability	(1,104,477)
Total consideration	832,586

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

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4. BUSINESS COMBINATIONS AND FORMATION OF PARTNERSHIP (continued)

(b) Formation of Cargojet Regional Partnership

Effective August 1, 2009, the Fund entered into a partnership with SkyLink Express Inc. ("SL Express") to combine their regional air cargo feeder aircraft network. The new partnership, Cargojet Regional Partnership (the "Partnership"), is owned 55% by the Fund's subsidiary, PEAL, and 45% by SL Express. PEAL contributed customer contracts to the Partnership valued at $3,911,112, while SL Express contributed a promissory note, payable to the Fund, of $3,200,001 bearing an annual interest rate of 6.5% (outstanding balance of $2,866,667 as at December 31, 2009) which will be repaid as payments are made on the leased aircraft. The Fund also incurred $695,931 of transaction costs which was recognized as goodwill.

The acquisition has been accounted for under the purchase method of accounting. Accordingly, the Fund allocated the purchase price to the identifiable assets and liabilities acquired based on their estimated fair value at the time of acquisition.

The operations of the Partnership have been included in the consolidated statements of operations and comprehensive income and cash flows from August 1, 2009.

5. CAPITAL ASSETS

			December 31, 2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	30,700,883	7,125,341	23,575,542
Spare parts	2,830,263	-	2,830,263
Ground equipment	7,020,919	2,706,759	4,314,160
Rotable spares	11,257,571	2,147,166	9,110,405
Computer hardware and software	2,245,681	1,176,253	1,069,428
Leased computer hardware and software	791,681	426,386	365,295
Furniture and fixtures	847,363	411,046	436,317
Leasehold improvements	4,376,153	2,472,527	1,903,626
Vehicles	344,942	215,649	129,293
Leased vehicles	230,309	124,705	105,604
Hangar facility	14,878,351	1,927,436	12,950,915
	75,524,116	18,733,268	56,790,848

			December 31, 2008
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	31,674,288	5,232,116	26,442,172
Spare parts	3,169,285	-	3,169,285
Ground equipment	5,931,974	1,658,283	4,273,691
Rotable spares	9,705,314	1,507,819	8,197,495
Computer hardware and software	1,661,045	840,585	820,460
Leased computer hardware and software	791,681	292,929	498,752
Furniture and fixtures	753,076	310,930	442,146
Leasehold improvements	3,997,223	1,724,811	2,272,412
Vehicles	344,941	160,072	184,869
Leased vehicles	230,309	75,863	154,446
Hangar facility	11,952,009	1,092,868	10,859,141
	70,211,145	12,896,276	57,314,869

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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5. CAPITAL ASSETS (continued)

Amortization expense consists of amounts charged under the following classifications:

	2009	2008
	$	$
Direct expenses	5,537,598	4,549,199
Selling, general and administrative expenses	755,481	607,489
	6,293,079	5,156,688

Capital assets of $356,894 related to an aircraft lease that expired in July 2008 have been written off and included in the Fund's statement of operations under general and administrative expenses for the year ended December 31, 2008.

In the second quarter of 2008, the Fund permanently removed its passenger aircraft from service. The Fund is using the aircraft as a source for spare parts to maintain its existing fleet of aircraft. The Fund reviewed the carrying value of this aircraft at June 30, 2008 and estimated that the recoverable value of the aircraft was less than the book value. The Fund reduced the net book value of this aircraft to fair value by $603,412 at June 30, 2008 and recorded the write-down in general and administrative expenses. The balance of $1,178,783, being the value of usable parts, was transferred to rotables spares.

6. INTANGIBLE ASSETS

				December 31, 2009
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3 - 4 years	42,024,712	38,521,008	3,503,704
Non-compete agreements	3 - 4 years	2,722,400	2,722,400	-
		45,747,112	41,243,408	4,503,704

				December 31, 2008
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3 - 4 years	41,779,715	34,777,564	7,002,151
Non-compete agreements	3 - 4 years	4,361,871	2,790,246	1,571,625
		47,141,586	37,567,810	9,573,776

CARGOJET INCOME FUND
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7. DEFERRED HEAVY MAINTENANCE

	December 31, 2009	December 31, 2008
	$	$
Cost	7,024,017	7,763,834
Accumulated amortization	4,891,805	6,292,061
	2,132,212	1,471,773

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	December 31, 2009	December 31, 2008
	$	$
Trade payables and accrued charges	10,362,366	14,975,831
Payroll and benefits	2,154,791	1,986,763
	12,517,157	16,962,594

9. LONG-TERM DEBT

The Fund maintains a revolving credit facility with a Canadian chartered bank that is to a maximum of $30.0 million. The facility bears interest at bank prime plus 1.3% and is repayable on maturity, July 27, 2011. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

- general security agreement over all assets of the Fund;
- guarantee and postponement of claim to a maximum of $35.0 million in favour of Cargojet Partnership (wholly-owned subsidiary of the Fund) and certain other entities of the Fund; and
- assignment of insurance proceeds, payable to the bank.

The Fund also maintains fixed loans with another Canadian chartered bank through its subsidiary PEAL. The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the aircraft of PEAL and guarantees provided by Cargojet Airways Ltd. (“CJA”) for 10% of the outstanding amounts. CJA is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL. The loans are repayable in monthly installments plus interest and will mature by January 2022. The Fund also maintains cash deposits with the chartered bank related to heavy maintenance reserve requirements of the aircraft assets secured by the loans. These cash deposits were included in cash per the consolidated financial statements and were in the amount of $454,144 as at December 31, 2009 and $365,210 as at December 31, 2008.

Long-term debt consists of the following:

	December 31, 2009	December 31, 2008
	$	$
Revolving credit facility	11,130,589	1,859,980
Fixed loans - Prince Edward Air Ltd.	5,577,496	6,070,975
Financing loan	29,043	111,682
Obligations under capital leases	399,044	545,750
	17,136,172	8,588,387
Less current portion	666,150	1,829,372
	16,470,022	6,759,015

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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9. LONG-TERM DEBT (continued)

The financing loan is repayable in 2010.

The following is a schedule of future minimum repayment schedule for the fixed loans related to PEAL:

	$
2010	428,747
2011	437,920
2012	447,874
2013	458,675
>2013	3,804,280
	5,577,496
Less current portion	428,747
	5,148,749

The following is a schedule of future minimum annual lease payments for computer hardware and software under capital leases together with the balances of the obligations:

	$
2010	218,957
2011	160,445
2012	35,876
	415,278
Less interest	16,234
Obligations under capital leases	399,044
Less current portion	208,360
	190,684

Interest on long-term debt for the years ended December 31, 2009 and 2008 totalled $722,009 and $956,143, respectively.

10. CONVERTIBLE DEBENTURES

In April 2008, $35.7 million of unsecured subordinated debentures were issued with a term of five years. These debentures bear a fixed interest rate of 7.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2008.

The debentures may not be redeemed by the Fund prior to April 30, 2011. On or after May 1, 2011, but prior to April 30, 2012, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Fund at a price equal to at least $1,000 per debenture provided that the current market price (as defined below) of the Trust Units of the Fund on the date on which the notice of redemption is given is at least 125% of the conversion price of $16.00 per Trust Unit. After May 1, 2012, but prior to the maturity date of April 30, 2013, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. The term “current market price” is defined in the indenture to mean the weighted average trading price of the Trust Units on the Toronto Stock Exchange for the twenty (20) consecutive days ending on the fifth trading day preceding the date of redemption or maturity.

On redemption or at maturity on April 30, 2013, the Fund has the option to repay the debentures in either cash or equivalent Trust Units of the Fund. The number of Trust Units to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the Trust Units.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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10. CONVERTIBLE DEBENTURES (continued)

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $16.00 per Trust Unit at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Fund for redemption of the debentures. The Fund also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Fund or any of its affiliates will not have the right to purchase the debentures by private contract.

The principal amount of the debentures has been allocated between its liability and equity elements and classified separately on the balance sheet. Factoring in the value of the conversion option and transaction costs, the convertible debenture bear interest at an effective rate of 10.34%.

Normal course issuer bid

Under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expires on March 16, 2010, the Fund may repurchase up to $3,530,400 principal amount of the debentures, or approximately 10% of the public float outstanding on March 11, 2009. Daily purchases were limited to $4,310 principal amount of the debentures until March 31, 2009, and $2,155 principal amount of the debentures thereafter, other than block purchase exemptions.

During the year ended December 31, 2009, the Fund repurchased $3,519,000 principal amount of the debentures ($3,118,147 net of the related unamortized issuance costs and the portion allocated to the conversion option) at a cost of $2,808,202, or $798 per debenture, resulting in a gain of $400,853. The repurchase of the debentures also resulted in a transfer within unitholders' equity of $223,939 from the conversion option to contributed surplus.

The balance of the Fund's convertible debentures at December 31, 2009 and December 31, 2008 consisted of the following amounts:

	December 31, 2009	December 31, 2008
	$	$
Principal balance	32,131,000	35,650,000
Less:		
Issuance costs	(1,612,696)	(1,789,320)
Conversion option to Unitholders' equity	(2,044,727)	(2,268,666)
Accretion	1,249,504	588,358
Balance	29,723,081	32,180,372

Interest expense on the Debentures for the years ended December 31, 2009 and 2008 totalled $3,454,492 and $2,378,183, respectively.

CARGOJET INCOME FUND
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11. INCOME TAXES

The tax effect of significant temporary differences and loss carry forwards is as follows:

	December 31, 2009	December 31, 2008
	$	$
Capital assets	5,362,917	7,292,226
Intangible assets	36,892	485,831
Operating loss carryforward	(1,537,755)	(459,098)
Financing costs	(478,832)	(1,192,541)
Derivative contracts	(177,118)	706,445
Deferred heavy maintenance	1,260,736	813,321
Future income tax liability	4,466,840	7,646,184
Less current portion	(177,118)	706,445
Future income tax liability - long-term	4,643,958	6,939,739

The carry forward balance of operating loss consists of $348,435 expiring in the year 2026, $113,832 expiring in the year 2027, $180,567 expiring in the year 2028 and $894,921 expiring in year 2029.

A reconciliation between the Fund's statutory and effective tax rate is as follows:

	2009	2008
	$	$
Earnings (loss) before income taxes and non-controlling interest	8,474,709	(2,605,037)
Income tax provision (recovery) at the combined basic rate of 33.00% (2008 - 36.12%)	2,796,654	(940,939)
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(2,350,081)	(3,100,513)
Non-deductible portion of amortization of intangible assets	462,247	978,491
Rate reduction	(660,468)	-
Permanent and other differences	(1,108,324)	1,509,191
Income tax recovery	(859,972)	(1,553,770)

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "Trust Units" and "Special Voting Units", respectively. An unlimited number of Trust Units and Special Voting Units may be authorized and issued pursuant to the Declaration of Trust.

Each Trust Unit represents an equal voting, fractional, and undivided beneficial interest in the Fund. All Trust Units are transferable and share equally in all distributions from the Fund whether of net earnings, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. The Trust Units are redeemable at any time on demand by the holders at fair value as determined by and subject to the conditions of the Declaration of Trust to a maximum of $50,000 per calendar quarter.

CARGOJET INCOME FUND
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12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS (continued)

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net earnings, net realized gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Special Voting Units will only be issued to the holders of Class A limited partnership units of the CHLP ("Exchangeable LP Units"), for the purpose of providing voting rights to these Special Voting Unitholders, with respect to the Fund. Each Special Voting Unit will entitle the holder to that number of votes at any meeting of Voting Unitholders that is equal to the number of Units that may be obtained upon the exchange of the Exchangeable LP Unit to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit for Units, the related Special Voting Unit will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any further rights.

(a) Trust Units

	Units	Amount
		$
Unitholders' capital as at December 31, 2007	6,698,863	62,235,654
Units purchased and cancelled (Note 12(d))	(19,518)	(181,332)
Unitholders' capital as at December 31, 2008	6,679,345	62,054,322
Units purchased and cancelled (Note 12(d))	(918,884)	(8,536,973)
Unitholders' capital as at December 31, 2009	5,760,461	53,517,349

(b) Non-controlling interests

The non-controlling interests represent a 27.9% (December 31, 2008 – 25.0%) non-controlling equity interest through exchangeable limited partnership units in CHLP (December 31, 2009 - 2,232,955; December 31, 2008 - 2,232,955), a 45% non-controlling equity interest in the Cargojet Regional Partnership (December 31, 2008 – nil) and a nil non-controlling interest in PEAL (December 31, 2008 – 49%) (refer to Note 4). The following provides details of the changes in the non-controlling interests during the year for each of these components:

Non-controlling interests – CHLP

	2009	2008
	$	$
Non-controlling interests, beginning of year	17,396,507	19,688,291
Share of income (loss) of CHLP	2,912,402	(95,896)
Distributions declared in the year (Note 18)	(1,865,634)	(2,195,888)
Non-controlling interests, end of year	18,443,275	17,396,507

Non-controlling interests – PEAL

	2009	2008
	$	$
Non-controlling interests, beginning of year	2,387,099	-
Non-controlling interests in PEAL on acquisition	-	3,054,784
Share of loss of PEAL	(1,369,858)	(667,685)
Purchase of non-controlling interests in PEAL	(1,017,241)	-
Non-controlling interests, end of year	-	2,387,099

Non-controlling interests – Cargojet Regional Partnership

	2009	2008
	$	$
Non-controlling interests, beginning of year	-	-
Formation of partnership on August 1, 2009 (Note 4)	3,200,001	-
Share of loss of Cargojet Regional Partnership	(373,216)	-
Non-controlling interests, end of year	2,826,785	-

CARGOJET INCOME FUND
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12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS (continued)

(c) Earnings per Trust Unit

Basic earnings per Trust Unit has been calculated based on the average number of Trust Units outstanding of 6,367,176 for the year ended December 31, 2009 and 6,697,312 for the year ended December 31, 2008. For the purpose of determining diluted earnings per Trust Unit, the weighted average number of Trust Units and Exchangeable LP Units have been combined totalling 8,600,131 in 2009 and 8,930,267 in 2008, and net income has been increased by the share of income allocated to CHLP (Note 12(b)). The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

(d) Normal course issuer bid

Under the terms of a normal course issuer bid that expired on November 24, 2009, the Fund repurchased 579,884 Trust Units at a cost of $2,354,287 or $4.06 per Trust Unit. The difference of $1,846,348 between the stated capital of Trust Units repurchased (allocated $5,387,453 as a reduction of Unitholders' capital and $1,186,819 as a reduction of the deficit) and the cost of redemption was credited to contributed surplus.

Under the terms of a normal course issuer bid that expires on December 7, 2010, the Fund may repurchase up to 573,620 of its Trust Units. Daily purchases are limited to 3,311 other than block purchase exemptions. In December 2009, the Fund purchased 339,000 Trust Units at a cost of $3,169,650 or $9.35 per Trust Unit. The difference of $661,849 between the stated capital of Trust Units repurchased (allocated $3,149,520 as a reduction in Unitholders' capital and $641,717 as a reduction of the deficit) and the cost of redemption was debited to contributed surplus.

In 2008, under the terms of a normal course issuer bid, the Fund repurchased 19,518 Trust Units at a cost of $52,636 or $2.69 per Trust Unit. The difference of $82,738 between the stated capital of Trust Units repurchased (allocated $181,332 as a reduction of Unitholders' capital and $45,958 as a reduction of deficit) and the cost of redemption was credited to contributed surplus.

13. CAPITAL MANAGEMENT

The Fund's objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the Unitholders and debt holders.

The Fund defines capital as the sum of Unitholders' equity, non-controlling interest, long-term debt, including the current portion, obligations under capital leases, convertible debentures, net bank overdraft positions, cash and cash equivalents, and the present value of the future operating lease payments.

The Fund manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may adjust the amount of distributions paid to Unitholders, purchase Trust Units for cancellation pursuant to normal course issuer bids, issue new Trust Units, issue new debt, issue new debt to replace existing debt (with different characteristics), repurchase debt instrument for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Fund's approach to capital management during the period. The Fund is subject to financial covenants related to its credit facility (Note 9). As at December 31, 2009 and 2008, the Fund was in compliance with all financial covenants.

CARGOJET INCOME FUND
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14. RELATED PARTY TRANSACTIONS

The Fund had the following transactions with two related companies, Flagship International Aviation Ltd. ("FIAL") and Flagship Aviation Holdings Ltd. ("Flagship Aviation"). Each of these companies is controlled by one of the Fund's executive officers.

	2009	2008
	$	$
Acquisition of capital assets - hangar	-	1,010,551
Direct expenses - warehouse rent and utilities	-	273,803
Selling, general and administrative expenses	-	7,186

The direct expense transactions with Flagship Aviation were related to a warehouse lease agreement. These transactions were in the normal course of operations and measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

15. COMMITMENTS AND CONTINGENCIES

Commitments

The Fund is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

	$
2010	14,266,137
2011	12,569,614
2012	12,145,614
2013	12,001,922
2014	11,252,778
Thereafter	11,032,586
	73,268,651

Contingencies

The Fund has provided irrevocable standby letters of credit totalling $960,000 to a financial institution as security for its corporate credit cards and to several vendors as security for the Fund's ongoing purchases. The letters of credit expire as follows:

	$
March 20, 2010	20,000
July 6, 2010	126,000
July 31, 2010	208,000
October 18, 2010	156,000
December 16, 2010	250,000
December 31, 2010	200,000
	960,000

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

16. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Fund is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2009.

Fair values

The fair value of the convertible debentures, based on quoted market prices as at December 31, 2009, was approximately $32,180,000 (December 31, 2008 – $17,800,000). The fair value of the long-term debt based on an estimate of market interest rates as at December 31, 2009, was approximately equal to its carrying value (December 31, 2008 - $6,448,000). The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

Foreign exchange forward contracts are categorized in Level 2, as they are primarily derived from observable market inputs, that is, foreign exchange rates.

The Fund does not have any Level 3 fair value measurements and thus no continuity schedule has been presented. In addition, there have been no significant transfers between levels.

Total financial assets and financial liabilities at fair value
As at December 31, 2009

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial Assets				
Cash	3,031,764	-	-	3,031,764
Financial Liabilities				
Foreign exchange contracts	-	538,713	-	538,713

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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16. FINANCIAL INSTRUMENTS (continued)

Credit risk

The Fund's principal financial assets that expose it to credit risk are accounts receivable and foreign exchange derivative instruments.

The Fund is subject to risk of non-payment of accounts receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Fund's prior experience and its assessment of the current economic environment. The Fund's receivables are concentrated among several of its largest customers with approximately 50% (December 31, 2008 – 51%) of total receivables on account of the Fund's ten largest customers. However, the Fund believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (3%) of trade receivables are outstanding for more than sixty days and are considered past due. The Fund considers that all of these amounts are fully collectible. Trade receivables that are not past due are also considered by the Fund to be fully collectible. Consistent with its past collection history, the Fund has not recognized any significant provisions for bad debts.

(b) The Fund mitigates credit risk by monitoring the creditworthiness of its customers.

(c) A majority of the Fund's major customers are large public corporations with positive credit ratings and history.

The credit risk on the foreign exchange forward purchase contracts is limited. All of the Fund's counterparties are with Canadian chartered banks.

Liquidity risk

The Fund monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Fund believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Fund's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $30.0 million.

The Fund has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2009 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Long-term debt and convertible debentures	666,150	11,724,058	33,543,085	3,333,880	49,267,173
Interest on long-term debt (at current rates)	3,253,599	3,042,271	4,131,345	916,230	11,343,445
Derivative financial instruments	538,713	-	-	-	538,713
Accounts payable and accrued liabilities	12,517,155	-	-	-	12,517,155
Other liabilities	335,723	-	-	-	335,723
	17,311,340	14,766,329	37,674,430	4,250,110	74,002,209

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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16. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk

The Fund earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars ("USD") at fixed rates in future periods. As at December 31, 2009, the Fund held forty foreign exchange forward purchase agreements maturing on a monthly basis to October 2011 for a total of USD $20.0 million. These agreements fix the amount of Canadian dollars that the Fund will pay to buy USD to offset its purchases in USD.

These forward exchange purchase contracts have been designated as cash flow hedges. As at December 31, 2009, the outstanding contracts had a negative fair value of $538,713 that is recorded as a liability on the balance sheet. For the year ended December 31, 2009, the change in the unrealized fair value of these contracts was $173,734 ($118,380 net of tax) and was recorded in other comprehensive income during the year. In addition, eight contracts matured during the year ended December 31, 2009 resulting in the transfer from comprehensive income to net income of $219,266 ($150,648 net of tax).

In January 2009, the Fund terminated twelve foreign exchange forward purchase contracts, realizing a pre-tax gain of $2,600,000. The Fund recognized these gains during the year ended December 31, 2009 in the same periods in which the hedged anticipated transactions affected net income. The total amount recognized and transferred from accumulated other comprehensive income to net income for the year ended December 31, 2009 was $2,600,000 ($1,770,535 net of tax).

As at December 31, 2008, outstanding contracts had a positive fair value of $2,148,558 that is recorded as a derivatives contract asset on the balance sheet. During the year ended December 31, 2008, the change in the unrealized fair value of these contracts was a gain of $2,786,635 ($1,870,389 net of tax). This gain, net of tax, was recorded in other comprehensive income during the year. In addition, nine contracts matured during the year ended December 31, 2008 resulting in the transfer from comprehensive income to net income of $638,077 ($428,277 net of tax).

On January 1, 2010 the Fund discontinued hedge accounting and will recognize the deferred loss of its remaining forty foreign exchange contracts in the same periods in which the hedged anticipated transactions will affect net income.

Total foreign exchange gains during the year ended December 31, 2009 were approximately $2,303,000 (December 31, 2008 – foreign exchange gains of $1,520,000).

Commodity risk

The Fund is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Fund does not use derivative instruments to mitigate this risk.

Market risk

In the normal course of business, the financial position of the Fund is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-Canadian dollar denominated assets and liabilities, other examples of risk include collectibility of accounts receivable.

The Fund regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Fund does not anticipate any material losses from these risks.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

16. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

To meet disclosure requirements, the Fund performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Fund's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Fund's cash and cash equivalents, long-term and short-term debt, convertible debentures and all derivative financial instruments. To perform the sensitivity analysis, the Fund assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

At December 31, 2009, movements in interest rates would not have any significant impact on the fair value of the Fund's financial assets and liabilities.

At December 31, 2009, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would decrease the mark to market value of forward contracts by approximately $2.1 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would increase in the mark to market value of forward contracts by the same amount.

At December 31, 2009, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Fund's other net financial assets and liabilities denominated in US dollars by approximately $0.8 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount.

17. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees are as follows:

(a) The Fund has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all trustees, directors and officers of the Fund for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Fund. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Fund has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Fund to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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17. GUARANTEES (continued)

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

18. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the year ended December 31, 2009 were $5,233,297 (2008 – $6,586,344), to unitholders and $1,865,634 (2008 – $2,195,888) to Exchangeable LP unitholders.

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. Effective November 1, 2009, the Fund increased the monthly distribution rates for the unitholders and Exchangeable LP unitholders by 56% from $0.0270 to $0.0420. A special distribution of $0.3600 was declared for all unitholders of record as at November 30, 2009. The following table summarizes the cash distributions for the year ended December 31, 2009.

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	444,486	150,725	150,725	595,211	0.0675	595,211
April 30, 2009	May 15, 2009	177,267	177,267	60,290	60,290	237,557	0.0270	237,557
May 31, 2009	June 15, 2009	176,638	176,638	60,290	60,290	236,928	0.0270	236,928
June 30, 2009	July 15, 2009	175,461	175,461	60,290	60,290	235,751	0.0270	235,751
July 31, 2009	August 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
August 31, 2009	September 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
September 30, 2009	October 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
October 31, 2009	November 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,985	2,451,985	897,646	897,646	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		5,233,297	5,442,214	1,865,634	1,922,575	7,098,931	0.8273	7,364,789

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

18. DISTRIBUTIONS (continued)

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 2007	January 15, 2008	-	645,771	-	215,257	-	-	861,028
January 31, 2008	February 15, 2008	645,771	645,771	215,256	215,256	861,027	0.0964	861,027
February 28, 2008	March 15, 2008	645,770	645,770	215,256	215,256	861,026	0.0964	861,026
March 31, 2008	April 13, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
April 30, 2008	May 15, 2008	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
May 31, 2008	June 13, 2008	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
June 30, 2008	July 15, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
July 31, 2008	August 15, 2008	452,173	452,173	150,724	150,724	602,897	0.0675	602,897
August 31, 2008	September 15, 2008	452,173	452,173	150,725	150,725	602,898	0.0675	602,898
September 30, 2008	October 15, 2008	452,173	452,173	150,725	150,725	602,898	0.0675	602,898
October 31, 2008	November 14, 2008	452,173	452,173	150,725	150,725	602,898	0.0675	602,898
November 30, 2008	December 15, 2008	452,173	452,173	150,724	150,724	602,897	0.0675	602,897
December 31, 2008	January 15, 2009	450,856	-	150,725	-	601,581	0.0675	-
		6,586,344	6,781,259	2,195,888	2,260,420	8,782,232	0.9834	9,041,679

Distributions payable at December 31, 2009 were as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	December 1, 2009 to December 31, 2009	December 31, 2009	January 15, 2010	$ 0 .0420	241,939
Exchangeable LP Units	December 1, 2009 to December 31, 2009	December 31, 2009	January 15, 2010	$ 0 .0420	93,784
					335,723

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	December 1, 2008 to December 31, 2008	December 31, 2008	January 15, 2009	$ 0 .0675	450,856
Exchangeable LP Units	December 1, 2008 to December 31, 2008	December 31, 2008	January 15, 2009	$ 0 .0675	150,725
					601,581

CARGOJET INCOME FUND
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19. SEGMENTED INFORMATION

The Fund's business falls under one dominant industry segment, the air cargo transportation industry in Canada. The Fund operates its business as two distinct operating segments: the National Overnight Air Cargo ("National") segment that provides service to 13 major cities across Canada utilizing a fleet of large jet engine aircraft, and the Regional Overnight Air Cargo ("Regional") segment that provides service to twenty-one smaller cities in Ontario, Quebec and the Maritime provinces utilizing a fleet of twenty-eight smaller propeller engine aircraft. The Fund's regional air cargo business started in October 2007.

The Regional segment includes the operations of Prince Edward Air Ltd. that was acquired by the Fund on May 1, 2008 and the Fund's own regional air cargo business that was transferred to Prince Edward Air Ltd. on May 1, 2008.

The performance of each operating segment is regularly evaluated by the chief operating decision maker and chief decision making group who assess performance and decide on the allocation of resources. The performance of the Fund's operating segments is measured on earnings before income taxes and non-controlling interest. Inter-segment transactions are reflected at market value. The following is a breakdown by reporting segment for the years ended December 31, 2009 and 2008:

CARGOJET INCOME FUND
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19. SEGMENTED INFORMATION (continued)

	Year Ended December 31, 2009			
	National	**Regional**	**Inter-segment**	**Total**
	$	$	$	$
REVENUES	144,667,772	23,077,588	(1,581,563)	166,163,797
DIRECT EXPENSES	104,214,789	23,143,024	(1,581,563)	125,776,250
	40,452,983	(65,436)	-	40,387,547
SELLING AND ADMINISTRATIVE				
Sales and marketing	574,761	20,003	-	594,764
General and administrative	19,081,027	1,934,286	-	21,015,313
Gain on debenture redemption	(400,853)	-	-	(400,853)
Interest, net	3,607,077	454,796	-	4,061,873
Amortization of capital assets	726,161	29,320	-	755,481
Amortization of intangible assets	4,627,780	1,258,480	-	5,886,260
	28,215,953	3,696,885	-	31,912,838
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	12,237,030	(3,762,321)	-	8,474,709
	As at December 31, 2009			
TOTAL NET CAPITAL ASSETS	44,243,163	12,547,685	-	56,790,848
TOTAL CAPITAL EXPENDITURES	5,593,601	1,113,653	-	6,707,254

	Year Ended December 31, 2008			
	National	**Regional**	**Inter-segment**	**Total**
	$	$	$	$
REVENUES	185,745,745	20,801,063	(871,708)	205,675,100
DIRECT EXPENSES	154,576,799	19,949,471	(871,708)	173,654,562
	31,168,946	851,592	-	32,020,538
SELLING AND ADMINISTRATIVE				
Sales and marketing	902,949	51,586	-	954,535
General and administrative	17,349,563	1,002,216	-	18,351,779
Interest, net	2,723,015	450,738	-	3,173,753
Amortization of capital assets	607,489	-	-	607,489
Amortization of intangible assets	10,209,000	1,329,019	-	11,538,019
	31,792,016	2,833,559	-	34,625,575
LOSS BEFORE INCOME TAXES AND AND NON-CONTROLLING INTEREST	(623,070)	(1,981,967)	-	(2,605,037)
	As at December 31, 2008			
TOTAL NET CAPITAL ASSETS	45,810,848	11,504,021	-	57,314,869
TOTAL CAPITAL EXPENDITURES	21,362,538	12,254,437	-	33,616,975

CARGOJET INCOME FUND
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20. ECONOMIC DEPENDENCE

During the year ended December 31, 2009, the Fund had sales to three customers that represented 51% of the total revenues (December 31, 2008 – 44%). These sales are provided under service agreements that expire over various periods to September 2014. Two of these customers had sales in excess of 10% of total revenues in 2009 (two in 2008). The sales to individual customers represented 29.5%, 13.1% and 7.9% of the total revenue (December 31, 2008 – 22.4%, 11.5% and 9.9%). These customers are reported under the National segment. (Note 19)

21. SUBSEQUENT EVENTS

On December 3, 2009, the Fund announced that it had authorized a substantial issuer bid (the “Offer”) to purchase for cancellation up to $15,000,000 principal amount of its outstanding convertible debentures due April 30, 2013 at a purchase price of $1,010 in cash for each $1,000 principal amount of debentures (the “Purchase Price”).

As at January 15, 2010, an aggregate of $7,476,000 principal amount of its debentures was deposited under the Offer. The Fund has taken up and accepted for purchase and cancellation all of such deposited debentures at a purchase price of $1,010 per $1,000 principal amount of debentures, plus a payment in respect of all accrued and unpaid interest outstanding on such debentures for an aggregate purchase price of $7,667,535 for all debentures taken up.

Officers of the GP

Dr. Ajay K. Virmani, MBA
President,
Chief Executive Officer

Dan Mills, CA
Chief Financial Officer,
Corporate Secretary,
Executive Vice-President

Jamie Porteous
Executive Vice-President,
Sales and Service

Officers of the GP

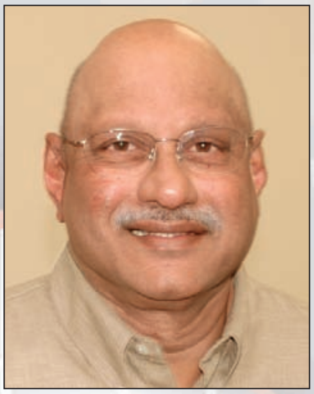
George Sugar
Senior Vice President,
Flight Operations

John Kim, CA
Vice President, Finance

Trustees of the Fund & Directors of the GP

John P. Webster
Trustee (Lead Director)

Terence M. Francis
Trustee



Paul V. Godfrey
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